CONTROL & BUDGETING

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CONTROLLING

• Evaluating performance in an organisation & applying necessary correction

Establish standards & methods for measuring performance → Measure performance → Does performance match standards → No → Take Action

→ yes

→ No action
CONTROLLING

• Qualities of an effective control system
  – Timeliness
  – Flexibility
  – Economy
  – Understandability
  – Accepted by members
CONTROLLING

CONTROLLING TECHNIQUES

Budgetary
- Master Budget
- Functional/Operating Budget
- Capital & Revenue Budget
- Fixed & Flexible Budget
- Short range & Long range
- Performance Budgeting
- Zero base Budgeting

Non-Budgetary
- 1) Standard Costing
- 2) Break Even analysis
- 3) Operational/Internal Audit
- 4) PERT/CPM
- 5) ROI
- 6) MIS
BUDGETING

I. FRAMEWORK OF BUDGETING

1. Corporate Strategy, Planning and Budgeting
2. Budget Period
3. Programme Budget and Responsibility Budget
4. Organisation for Budgeting
5. Budget Base
6. Limiting Factor
7. Participation
BUDGETING

II. TYPES OF BUDGETS

• Short Term and Long Term Budgets
• Fixed and Flexible Budgets
• Master Budget

III. PERFORMANCE BUDGETING
IV. BUDGETING IN INDIA

• Changes

• Greater technical sophistication

• Higher degree of participation.

• Stronger linkage between budgeting and long range planning.

• Better awareness of the concept of zero-base review.
COMPONENTS OF A MASTER BUDGETING SYSTEM

- Operating Budget
- Cash Budget
- Projected Balance Sheet
- Sources and uses of funds statement
- Investment and Financing Budget

Sub-budgets:
- Sales Budget
- Production Budget
  - Materials & Purchases Budget
  - Labour Cost Budget
  - Manufacturing Overhead Budget
  - Non-manufacturing Cost Budget
PURPOSE OF BUDGETING

• Think systematically

• Co-ordinating

• Medium of communication

• Motivation

• Judge actual performance
1. Strategy, Planning & Budgeting

- The exercise of periodic budgeting is based on corporate strategy and long range plans

2. Budget Period

- Annual, quarterly, monthly

3. Programme Budget and Responsibility Budget
PURPOSE OF BUDGETING

• Programme Budget
  – developed in terms of products.
  – developed by Rand Corporation of U.S.A in the middle fifties and installed in 1961 in the U.S Dept. of Defense in the form of planning programming & budgeting system.
  – planning oriented technique
  – provide data on cost-benefit analysis of alternative ways of achieving proposed objectives.
PURPOSE OF BUDGETING

- Responsibility Centres
  - Cost center
  - Profit Center
  - Investment Center

Responsibility budget shows a plan in terms of persons responsible for achieving them.
4. Organisation for Budgeting

- Budget Committee and a Budget Director
- sets broad guidelines
- co-ordinates separate budgets
- compiles budgets
- approval of Chief Executive and Board of Directors
5. Budget Base

Incremental Approach

- Basis: Level of operations in current year
- Suitability: Manufacturing Operations

Zero base Approach

- Start afresh
- Service and support areas
- Once in every 4 or 5 years
6. Limiting Factor

– critical factors which sets limit to level of activity

7. Participation

– The process of budgeting ends when budgets at different levels are established in such a manner that they are mutually consistent.
PERFORMANCE BUDGETING

• Evaluation or assessment of any organisation’s performance in terms of specific objectives as well as overall objectives.

• Process of analysing, identifying, simplifying and crystallising specific performance objective of a job in the framework of organisational objectives.

• Developed and recommended by Hoover Commission in 1949 and implemented in U.S Govt.
PERFORMANCE BUDGETING

• In India
  – Mr. Dean Appleby 1953
  – Estimates Committee 1958
  – ARC 1968
  – Union Budget 1974
FORMAT FOR PERFORMANCE BUDGET

I. Introductory

- objectives and goals of the organisation.

II. Financial Requirements

(a) Work programme /Activity classification
(b) Objective-wise classification
(c) Source of financing
FORMAT FOR PERFORMANCE BUDGET

III. Explanation of Financial Requirements

(a) Name of activity  Actual (last year)  Revised estimates (current year)  Budget estimates (next year)

(b) Nature and purpose of activity
FORMAT FOR PERFORMANCE BUDGET

(c) Physical work, inputs and outputs

- Work load factors, norms yardsticks and standards
- Progress during last and current year
  (Target vs Actual)
- Explanation of variations
- Targets for next year
- Requirements for inputs including staff, materials and equipment
- Detailed work plans and schedules