BUDGETING, ADVANTAGES AND LIMITATIONS

A budget is an instrument of management used as an aid in planning, programming, and control of business activity. A budget is used for cost control purposes, and it is one of the most important activities employed by management. The budget represents the financial requirement of different sections of a business during a period, to achieve an estimated profit based upon a given volume of sales. It depends on past statistical data and predicts the estimated labor, sales, production, and other management requirements for a definite budgetary period.

Budgeting is the art of budget making. Budget plays an important role in the development and use of modern cost accounting systems in all types of business enterprises. Good budgeting shows the manager what he may expect in sales over the next few months. It permits the formulation of production quota, including –

- the types and quantities of material
- the number and kind of labors
- the amount of overhead and fixed asset requirements
- pointing out financial requirement needed to accomplish the budget plan

Thus, budgeting implies forecasting and pre-planning for the budget period based upon past statistical data and present conditions.

Requirements for an Effective Budgeting

- There should be a recognized organization for budgeting, with all lines of authority and responsibility definitely allocated and defined.
- The budget should distinctly mark the responsibilities of each section of the business
- Since a budget is based on estimates of sales, cost etc they should take good care to make estimates
- A budget should be made flexible so that they may incorporate unavoidable changes if necessary.

What is Budgetary Control

Budgetary control makes use of budget for planning and controlling all aspects of producing and selling products or services. It attempts to show the plans in financial terms. When the