

INCREMENTAL BUDGETING, ADVANTAGES AND DISADVANTAGES

Budgeting is an important part in management accounting. It involves changing an existing budget to have a new budget. Incremental budgeting is a budgeting process that is based on the idea that a new budget can be developed by making only some marginal changes to the present budget.

With incremental budgeting, we use the present budget as a base to which incremental assumptions are added or deducted from the base amounts to fix new budget amounts. Management goes for this type of budgeting if it does not require too much time on preparing budgets. Businesses also go for this approach if they don't need to carry thorough reassessment of the operations.

Incremental Budgeting Process

Incremental budgeting allows you to use the past year's evaluations to the estimated base for the present financial year. The next step is to check for any increase or decrease from the past year and accumulate for the upcoming year. This incremental budget model works well for broad organizations since they have funds allocated and experience minor fluctuations.

The best incremental budgeting example would be educational institutes and organizations because of their long-term funded projects.

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Advantages of Incremental Budgeting

- Incremental budgeting is the simplest budgeting approach since it uses the budget for the ongoing period to project the upcoming budget. It does not require difficult calculations.
- It is easy to implement as you do not have to send your department managers to any special training in order to use this budgeting system.
- Using this budgeting system enables you to quickly see the impact of change.
- The dependence on the figures from the previous budgets assures the budgets remain fairly consistent and relatively stable over upcoming periods.
- Incremental budgeting can help to ensure that funding remains stable over time as values are relatively easy to project. This can be useful for companies with projects that involve funding for several years.