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Introduction

Time and money are scarce resources to all individuals and organizations. The efficient and effective use of these resources requires planning. Planning alone, however, is insufficient. Control is also necessary to ensure that plans actually are carried out. A budget is a tool that managers or planners use to plan and control the use of scarce resources. A budget is a plan showing the company's objectives and how management intends to acquire and use resources to attain those objectives. A budget can be made for a person, family, group of people, business, government, country, multinational organization, or just about anything else that makes and spends money. The budgeting process is carried out to identify whether the person or organization can continue to operate with its projected income and expenses. Therefore, the budget should be objective driven which means that the expected revenues and expenditures of each department will ultimately be based on the organizational objectives.

Budget and Budgeting – Meaning and Concept

Budget

A budget is a financial or quantitative statement prepared for a definite period of time.

OR

A budget is a financial plan that is used to estimate the revenue and expenses over a specified future period of time.

OR

A budget is a detailed financial plan that quantifies future expectations and actions relative to acquiring and using resources. The first and most important step to effective financial planning is developing and implementing a budget. In order to make effective decisions and coordinate the decisions and actions of the various departments, businesses need to have a plan for profitability. Typically, a business creates a budget annually which, once approved, becomes the Annual Plan (Budget).

OR

Budget refers to a comprehensive plan in writing, stated in monetary terms that outline the expected financial consequences of management's plans and strategies for accomplishing the organization's mission for the coming period.

OR

A budget is a master financial document or a "blueprint for action that set out the expected contribution from the operation or control of an organization in terms of anticipated cash flows or revenues and expected expenditures over a certain period of time.

It can be observed from these two definitions by the NIA that a budget essentially is a tool that forms part of the process of an effective management of an organization, especially in planning and control. Budgets induce management to think systematically and plan ahead about the future. They also serve as a device for coordinating the complex operations of the business, and provide a medium for communicating the financial goals of the firm. There is also a simple definition of budget limiting its function only 'as a medium of resource allocation'. In reality, most organizations viewed budgets as a statement of approved financial and operational resources allocated to each unit, activities and investments. Blumentritt (2006) explained that budgeting is the process of allocating an organization's available financial resources to its units, activities and investments and to monitor the performance of managers and employees.

Budgeting

Budgeting is the process of preparing the budget.

OR

Budgeting is the process of preparation, implementation and operation of budget decisions into specific projected financial plans for relatively short periods of time. In other words, budgeting is the process of "translating financial resources into human purposes" (Wildavsky, 1986).

OR

Budgeting is also viewed as a process of identifying, gathering, summarizing and communicating financial information of an organization's future activities.

OR

Budgeting are formal statements of the financial resources set aside for carrying out specific activities in a given period of time. They are most widely used means for planning and controlling the activities at every level of an organization. Budgetary control: Refers to any management approach that involves setting some kind of targets, regularly measuring variances between the original targets and actual outcomes, and motivating people to reduce those variances.

CHARACTERISTICS OF BUDGET

As stated earlier, a budget is a blueprint for management action. The following are the common features of budget:

- A budget is quantitatively stated: The figures in the budget are expressed in monetary terms. However, non-monetary information such as units to be sold, units to be purchased and others support the monetary figures.
- A budget is prepared in advance: A budget must be drawn up before the period to which it refers. Figures produced during or after the period may be important, but they are not part of a budget.
- A budget relates to a particular period: Generally, the budget is prepared for one year. However, in the case of a seasonal business, there may be two budgets for each year – a slack season budget and a peak season budget.
- A budget is a plan of action: A budget is a plan because it concerns actions to be taken rather than a passive acceptance of future trends. Planning is the establishment of objectives and the formulation, evaluation and selection of the policies, strategies, tactics and action required to achieve the objectives. Like all plans, budgets seldom turn out to be totally correct predictions of the future. Conditions may change during the budget period, which renders the budget to be inaccurate. Even so, budget is useful in guiding the actions of managers.
- A budget is an estimation or prediction of profit potential: The budget set forth the expenses and revenues planned during the budget period and thereby reveal its profit potential.