BUDGETING AND BUDGETARY CONTROL AS THE METRIC FOR CORPORATE PERFORMANCE

BY

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ABSTRACT

Budgeting and Budgetary Control is the thrust of this article. It tries to examine the practice of budgeting and budgetary control in corporate organizations and its merit as a predictor of corporate performance. Budgeting involves the setting of targets and monitoring of performance against those targets. For an organization to be successful, it must plan its financial activities well in advance through the institution of effective budgeting and budgetary control measures. . Modern business organizations are increasingly appreciating the importance of budgeting and budgetary control in the achievement of goals and objectives. Making effort to achieve operational targets and objectives without effective budgeting and budgetary control measures would be tantamount to a blind pursuit of goals. Great majority of firms are guilty of preparing initial budgets only to over-shoot the budget limits during the implementation stage due to poor control budgetary control measures. Forward-looking organizations today are determined to go the extra mile through achieving competitive dominance over their competitors and posting super profit figures. Good budgeting and budgetary control measures is the key to achieving this objective. The study advices top management of modern organizations to take budgeting and budgetary control issues seriously as no appreciable success can be achieved with haphazard budgeting and budgetary control. The methodology adopted in this article was descriptive approach involving the study of budgeting and budgetary control activities in 30 organizations selected from a number of States in the Federation. Best practices in budgeting and budgetary control in the 30 organizations were skimmed and synthesized to form the basic data for writing the article.
Key Words: **Budgeting, Budgetary Control, Corporate Performance, measurement**

INTRODUCTION

This research study discusses budgeting and budgetary control as the yardstick for measuring corporate performance. Budgetary system is largely made up of actual budgeting, budgetary planning and budgetary control. Dating back to early history, we learnt that the ancient man had to determine, in advance, what he needed and plan ahead of time how to obtain it. Today budgeting and budgetary control are part of our daily life. The individual makes budget on what he wants to spend every day, every week, every month up to the end of the year. The local government prepares budget of the revenues and expenses needed to provide essential social services and pay workers. The state Government put its own budget in place detailing revenues expected from the Federal Government and from other services and the expenses to be incurred in running the establishments under the State. The Federal Government make the over-all national budget showing what it has to pass down to the States and Local Governments, as well as what it would need to run government Ministries, public corporations and other establishment.

Every establishment, be it public, private or local government finds it necessary to prepare its own budget and institute budgetary control measures for the purpose of translating policies, coordinating activities as well as financial controls in order to achieve the best possible results.

In modern organizations, the most widely used type of accounting system today is described as a budgeting system, that is, a system that compares expected result with actual results (Sanni, 2005). Various definitions have been given on this concept. Traditionally, budget can be defined as a plan quantified in monetary terms, prepared and approved prior to a defined period of time usually showing planned income to be generated and expenditure to be incurred during that period and the capital to be employed to achieve a given objective (Owler, 1994).

Budgetary control, on the other hand, is the establishment of budgets which relates the responsibilities of the executives to the requirements of organizational objectives and the continuous comparison of actual results with the expected outcome.

Many large organizations today use a system of budgeting and budgetary control to control the procurement and utilization of productive resources. This involves the planning, in advance of the various functions of a corporate organization so that the business as a whole can be controlled. Budgetary control is part of a corporate planning system.

Corporate planning is interwoven with budgeting and it serves as a system for coordinating the setting of objectives, preparing budgets and plans, mapping out strategies, preparing policy and procedures and monitoring of performance and results. It can be called a formalized long range planning used to define and achieve organizational goal. Many organizations use it to define the reasons for their very existence.

It is an essential practice for every modern organization to prepare budgets which enables it to project into the future in order to cope with the changing situations in the competitive business environment.

It is essential for every organization to project into the future through preparing sound budgets and instituting necessary budgetary control measures to enable the firm cope with changes and innovations in the competitive business environment and achieve its set goals and objectives.

Budget and budgetary controls are essential tools for financial planning and control in any. Organization. Most organizations have realized that budgeting and budgetary controls are essential tools for successful financial planning. They are therefore paying sufficient attention to their annual budgets and allocation of resources to the key result areas (Adeniji, 2006)

A large number of enterprises fail to make a reasonable profit or generate sufficient funds at the right time due to the failure of management to plan ahead adequately. Every business, no matter how small, needs a budget to guide operations and the execution of projects. A budget can be viewed as a device for informing management of the plans a divisional head had for the coming year so that management can appraise these plans in relation to what other divisional heads had planned and in relation to company policy.

There are some problems inherent in budgeting and budgetary processes. It is therefore advisable on the part of management to exercise necessary care and caution to ensure that such problems do not defeat the purpose of budgeting and budgetary control. Some of such problems which include the following:

i. Inaccurate record keeping provides poor data on which future budgets are based thereby leading to the presentation of unreliable budget figures.

ii. Budgetary control system will suffer from inefficiency if the operators of the system are not adequately informed and qualified.

iii. Budgeting sometimes lead to departmental conflict. Such conflict arises due to dispute over resource allocation. One department blames the other for failing to achieve budgetary targets. There is also accusation of discrimination in dealing with the various departments.

This study therefore tries to weigh the adequacy of using budgeting and budgetary control measures as the metric for assessing corporate performance.

CONCEPTUAL CLARIFICATION

The origin of budget and budgeting dates back to the stone-age. The early men get together and do their calculations and estimations on how to procure food, shelter and clothing in order to sustain livelihood (Olaitan, 2005). Budgeting is a forward-looking economic management tool. Rubin (1993 argued that the business community was the origin and model of improved public financial practices in USA including budgeting in the early 20th Century.

Budget itself is a cost plan for the future while budgeting involves the allocation of resources in order to enable an organization achieve its goals and objectives. Budgeting can be called a coherent and comprehensive programme of action by which the government and business organization reach their desired destination. Budgeting is one of the most extensively researched topics in management accounting. It has been studied from the theoretical perspective of economics, psychology and sociology. Thus, budgeting offers opportunities for research that chooses between competing theories from these perspectives or combines theories from different perspectives (Olaitan, 2005).

What is a Budget? The word "budget" according to the Californian Department of Finance in the United States originated from the French word "bougette" meaning a leather bag. In the early 18th century, the plans of expenditure which the minister of the crown carried to parliament were called the schedules of account. The large leather bag in which they were carried was called the budget. As time passed by, the minister of the crown and his cabinet began to refer to the inauguration of the discussions on the crown's proposed expenditure which has been prepared and carried in the leather bag as "the opening of the budget". This convention continued and gradually the term began to be associated with the content of the bag rather than the bag itself. This evolutionary concept continued until the term budget was universally accepted in England as the cost plan for the future (Chikeleze, 2002).

Budgeting as a Concept

Budgeting is the process of obtaining a budget required to guide the allocation of resources to projects and programmes in an organization. It is related to a period of time usually expressed in quantitative terms. According to the Californian Department of Finance, most of the policies, procedures and technical practices that we associate with modern budgeting were developed during the 19th century. The first major changes occurred in France. The French government introduced sweeping changes in the society during the reign of Napoleon Bona Parte. The budgetary effort was aimed at achieving utility and precision of Napoleonic Code of Law and the Metric System. France later adopted the English words “budget” and “budgeting” and expanded the English technical capabilities and practices as part of an effort to obtain greater control over all expenditure both in military and non-military affairs. The French achievements were remarkable, not only because they were unprecedented, as it was at that time, but because they were accomplished in a short period of time ((Appah, 2009).

Most organizations prepare budget for the following reasons:

(a) A Budget is a financial sign-post for steering a corporate organization to its operational destination. That destination represents the goals and objectives of the enterprise.
(b) Budget helps to implement the policies formulated by the management for attaining the given objectives.
(c) Budget facilitates coordination, tying together the various units of the organization that must interact in harmony in order for the firm to function successfully.

(d) Budget is also a very good instrument for the control of resources. It entails the use of quantifiable measures to monitor deviations. To aid this process, devices such as ratios, cash flow, return on investments and payback period are used.

THEORETICAL FRAMEWORK

Views of Authorities on Budgeting and Budgetary Control

Budgeting for an organization is a process. It is the process of preparing a detailed statement of financial results that are expected for a given time period in the future (Peaver, 2013). In this definition given by Peaver, the two key words are "expected" which stands for something that may or may not happen while the second word "future" means a period of time to come ahead. Thus, budgeting is the process of preparing a detailed statement of financial results that are likely to happen in a period of time to come.

A budget is usually prepared to cover a given time period but this is dependent on a number of factors such as type of organization, nature of activities, purpose of the budget and limitations of government regulations. Depending on the choice of an enterprise, the time period of a budget can cover one month, four months, six months or one year. Each budget is expected to focus on the attainment of well-defined goals and objectives of the enterprise.

Budgeting and budgetary control have been defined and explained by several authors and writers in their own ways. However all the definitions can be rightly described as different sides of the same coin. However, the Chartered Institute of Management Accountants (CIMA) has provided us with a standard definition of a budget. The professional body is of the view that "budget is a plan quantified in monetary terms prepared and approved prior to a defined period of time usually showing planned income to be generated and expenditure to be incurred during that period and the capital to be employed to attain a given objective."

Okeke (1995) also described a budget as serving diverse purposes and meaning different things to different people in different geographical locations. Some of the descriptions of budget given by the author include: A plan of work, a prediction about the future, a link between financial resources and human behavior to accomplish policy objectives, A mechanism of making choices among alternative expenditure outlets.

According to Lucey (1988), Plans are developed using physical values for example, the number of units to be produced, the number of hours to be worked, the amount of materials to be consumed and so on. When monetary value is attached, the plan becomes a budget

Frank Wood (1984) is of the view that when plans are expressed quantitatively, they are known as budgets and the process of converting plans into budgets is known as budgeting.

Eddy (1996) observed that budget is a plan of the dominant individuals in an organization expressed in monetary terms and subject to the constraints imposed by other participants and the environment indicating how to achieve whatever the dominant individuals agree to be organization priorities.

Common to the above definitions is the term "Plan" and "Monetary Value". It is therefore important to note that a budget is essentially a plan, short-term plan, usually a year, expressed in monetary terms. The annual processes of budgeting therefore are stages in the progressive fulfillment of the long-term goals of the organization. Budget is one of best known tools for integrating and complementing plans.

Budgetary control is a system of controlling cost, which includes the preparation of budget, coordinating the departments and establishing responsibilities, comparing actual performance with that budgeted and acting upon results to achieve maximum profitability.

According to the Chartered institute of Management Accountants (CIMA), budgetary control is "the establishment of budgets relating to the responsibilities of executives to the requirements of the actual with the budgeted results.

Budgetary control therefore relates to the use of budget as a control device whereby predetermined plans or standard output, income and expenditure are compared with actual attainment so that, if necessary, corrective action may be taken before it is too late.

Sectional budgets are prepared for each separate function of an organization. Good example is the preparation of budget for production, administration, selling and distribution departments, and these sectional budgets are aggregated in a master budget which can be expressed in the form of budgeted profit and loss account and balance sheet. The effectiveness of a budgetary control system depends on the ability of those concerned to ensure that appropriate remedial action is taken when variances are observed.

Budgeting and Financial Forecasting

Budgeting and financial forecasting have some common relationship. Financial forecasting is forward-looking, that is, futuristic in nature. The financial forecasting of any organization is an attempt to predict the financial status or requirement of the organization in the future. The financial forecasting will involve the preparation of forecasted financial statements such as the statement of financial position which gives information on the resources and obligations of the entity, the statement of comprehensive income which gives information on performance and a statement of cash flow which is a presentation of sources and utilization of cash for a given period. It is however pertinent to note that budget preparation is an important starting point for the preparation of financial forecast. This indicates that if budget is taken a little step further, it will aid and lead to preparation of statement of financial forecast for the future (Adeyemi, 2004).

RESEARCH METHODOLOGY

Descriptive research method was adopted in this article. Descriptive research is based on information gathered through interviews, inventories study, examination of documents and observation. (Questionnaires were not used). Descriptive research is used to find meaning and obtain understanding of the present condition. The study was consummated through oral interviews held with budget directors and budget committee members in each of the 30 organizations studied.

Data Analysis: A total of 30 organizations were studied. The organizations were made up of 10 government establishments, 10 manufacturing companies and 10 service enterprises operating in three States of the Federation (Lagos, Anambra and Delta States). Best practices in budgeting and budgetary control measures in the 30 organizations were skimmed and synthesized and then used as basic data for consummating the article.

LITERATURE REVIEW

Budgets are planned allocations of a firm's resources based on forecast for the future. There are two important elements that influence actual performance. One element is the impact of external influences and developments in the economy. The firm has no control over these factors while the second is controllable by the firm that is the level of efficiency at a given volume of output.

Budgets can be classified into the period and the purpose for which they were designed. Classification of budget comes under two headings, either by the time period to which they apply or the purpose for which they are prepared. Budget period has direct link with the purpose for which it is prepared.

A budget may be prepared to cover any range of time, from one week to multi-year period. Budget period would be determined by the kind of project for which the budget is made. A capital project, for instance, would take a longer period.

Most organizations make two basic types of plan - the strategic plan and the operational plan. The strategic plans are designed to meet the broad objectives of the organization and to implement the mission that provides the unique reasons for the organization’s existence. Operational plan, on the other hand, provides details as to how the strategic plans will be accomplished.

Organizations make plan either in a formal or informal way. However, they differ in their budgeting practices. Generally the large and medium-size firms have comprehensive system of budgeting involving the preparation of a master budget with a complete package of the component budgets.

An organization can prepare different types of budget and this is determined by the nature, type and complexity of the firm. Despite the importance of the preparation of budgets, managers should not spend undue time in the process at the expense of other activities.

Different Types of Budget

According to Peaver (2013), there are three most important budgets which need to be prepared by an organization while also recognizing the purpose of other functional budgets. The three essential budgets are listed and explained below:

1. Capital Budget

Capital budget is a budget preparation made for large expenses in an organization. Capital budget involves fixed assets that the firm need for its operations. It is the process of budgeting for obtaining, expanding and replacing fixed assets. All organizations need facilities to carry on their operations, this may include building and other structures required for running the enterprise. An organization needs a sound and purposeful capital budget for successful operation. Most of the decisions under capital budget are long-term in nature, requiring heavy capital outlay and some capital budget decision may not be reversible when the implementation starts. Therefore if mistakes are made, it will lead the organization into huge financial loss.

2. Operating Budget

Operating budget is based primarily on the organization's sales forecast. It is a budget of sales revenue less expenses and essentially ends up with gross profit. In the operating budget, the organization needs to determine what is needed in sales revenue to meet the expenses and achieve the profit objective of the firm.

3. Cash Flow Budget

The cash flow budget is very important for the success of a corporate organization. It is a budget showing expected cash inflows (receipts) and cash outflows (expenses). The cash flow budget shows whether or not enough cash will be available to meet monthly expenses. If not, the cash flow budget shows how you can borrow if you do not have enough money to meet expenses and how to invest if you have more cash than you need in a given period. Budgeting is very necessary to enable an organization plan for the present and future operations.

Other Types of Budget

There are other types of functional budgets an organization can prepare and these are discussed under; fixed budget, flexible budget and master budget

(1) Fixed Budget

According to Foster (1988), fixed cost is constant only over a contemplated range of activity for a given year. They may be deliberately increased to obtain more profitable combination of production and distribution. These changes affect revenue, variable cost and fixed cost.

It may be wise to reduce fixed cost to obtain a more favourable combination. Thus direct selling may be supplemented by the use of wholesalers. When major change in fixed cost is proposed, management uses forecast of the effect on the targeted net income and the unit contribution margin as a guide towards a wise decision. The management makes continuing analysis of cost behavior and determines breakeven point periodically.

(2) Flexible Budget

Flexible budget is that budget which is adjusted for changes in volume. The flexible budgets can be useful either before or after a specific period in question. They can be helpful when managers are trying to choose a level of volume for planning purposes. They can also be helpful at the end of the period when managers are trying to analyze actual results. Brown (1985) defined flexible budget as a budget which recognizes the difference in behavior between fixed and variable cost in relation to fluctuations. In his findings, he came out with two approaches.

In the flexible budget without standard costing, it is desirable to separate all expenditure into fixed and variable expenditure as their behavior differs in circumstances, which are subject to fluctuation. Thus as production increases, economics of large scale buying may reduce the direct material cost but an increase in the fixed cost may take place.

(3) Master Budget

Master Budget summarizes the objectives of all sub-units of an organization's sales, production, distribution and finance. It quantifies the expectation regarding future income, cash flows, financial position and supporting plans.

Well-managed organizations usually have the following budgetary cycle:

- Planning the performance of the organization as a whole as well as its past.
- Providing a frame of reference as a set of specific expectation against which actual results can be compared.
- Investigation of the plan, taking corrective action after the investigation.
- Planning again considering feedback and changed conditions.

The master budget embraces the impact of both operational decision (especially those concerning the acquisition and utilization of scarce resources) and financing decision (those concerning obtaining funds for acquisition of resources).

Master budgets prepared in form of budgeted profit and loss account in which it will incorporate the production, sales and cost estimated for the budget period. The board of directors will then consider the budget and if they are not satisfied, they will call for amendment. However, when it is finally approved, it represents a standard which should be achieved by each department in the organization.

Budgeting and Corporate Planning

Every organization, whether profit-oriented or non-profit, must have set goals and objectives to achieve. Some of the objectives may be financial and others may not be. The goals and objectives may be short-term or long-term depending on the business of the organization. Sometimes it is necessary to translate a long-term objective into short-term and medium term targets which then lead to the achievement of the long-term objectives.

Corporate planning is defined as the process of drawing up detailed action plans in order to achieve the aims and objectives of an enterprise. It takes into account organizational resources and environment within which a company operates. Corporate planning is the responsibility of senior managers and there should be a structured approach to achieving objectives and implementing corporate strategy. It is essential to align an organization's budget with corporate objectives.

The Importance of Budgeting

According to Osmon (2012), the importance of budgeting can be summarized as given below:

1. Limitation of Expenditure

A major benefit of using a budget is the ability to limit how much money is spent on certain operations. Budget usually shows expenses account to ensure that capital is not wasted on non-essential items. Limiting the amount of capital spent by the business may require owners and managers to find new vendors or suppliers for acquiring business inputs, saving money and meeting targets.

2. Creation of a Financial Roadmap

Budget often allows a company to have roadmap for business operations. Many companies review previous year's budget to determine how well they followed the guidelines and why budget variances occurred.

3. Plans for Future Growth

Companies often use budgets to plan for future business growth and expansion. Capital saved on regular business expenditures may be placed in a special reserve account designated for selecting new business opportunities. Budgeting for future growth opportunities ensures that companies have capital on hand when needing to make quick decisions for expanding business operations.

4. Coordination of Activities

Budget serves as a vehicle through which actions of different parts of an organization can be brought together and reconciled into a common plan. Without any guidance, managers may take sub-optimal decisions that might not be in tandem with the overall interest of the organization.

5. Communication

Through budgets, top management communicates its expectations to lower level managers so that all members of the organization may understand the expectations of the enterprise and coordinate their activities towards achieving the common goal.

6. Motivation

A budget provides a standard which under certain circumstances, a manager may be motivated to strive to achieve it. If individuals have directly participated in preparing the budget which serves as a tool to assist managers in managing their departments, it can act as a strong motivational device by providing challenge.

7. Control of Organizational Activities

A budget assists managers in managing and controlling the activities for which they are responsible by comparing the actual results with the budgeted amounts for different operations. Managers can therefore ascertain the costs that do not conform to the original plans and thus take necessary corrective action. This process enables management to operate a system of management by exception, which implies that a manager's attention and effort can be concentrated on significant deviations from expected results.

8. Performance Evaluation

The budgetary system is also used as a basis of judging actual results. Budgeted goals and performance are generally regarded as being more appropriate than past performance. The major drawback of using historical data for judging performance is that inefficiencies may be concealed in the past performance and, above all, there could be significant changes during the current period.

The term "Budgetary Evaluation" refers to the extent to which budget variance are traced back to individual department heads and used in evaluating their performance. The way in which budgets are used in performance evaluation tend to influence the behavior attitude and performance of the participant. A positive approach, for instance, can lead to lower motivation and negative attitude; a supportive approach, on the other hand, may result in positive attitude and behavior (Foster, 1988).

The reward system of the organization i.e. promotion is often linked to the achievement of certain levels of performance frequently measured in accounting terms. The establishment of formal performance measurement and rewarding individuals for their performance will encourage them to maximize their contribution towards the organization's objectives.
The management is expected to achieve a satisfactory performance in all levels of activities.

Objective of Budgeting and Budgetary Control

The main objective of Budgeting is to assist managers in planning the future of the organization. It provides clearly defined targets of output, income and expenditure for each section or function of the organization. It promotes cooperation and coordination among managers in the attainment of predetermined targets. Budgetary control system helps to indicate the financial requirements for a given period and the sources from which the required finances are to be obtained. It ensures that sufficient working capital is available for the efficient operation of the organization. Budgetary planning and control system in varying degree of complexity and coverage can be found in most organizations in both public and private sectors. There are genuine benefits to be gained from the use of such system but these benefits do not automatically accrue. They have to be worked for and there must be continual appraisal of all aspects of the budgetary system and of its administration. An awareness of the problems which may be encountered and the factors which prevent the most effective use of budgetary system is also available in order that these may be overcome where possible.

Budgetary control is the formal way in which the organizational objectives are translated into specific plans, tasks and objectives related to individual manager and supervisors. It provides clear guideline for current operation, that is, it helps directors or managers to plan the future policy of the organization. It provides clearly defined target of output, income and expenditure for each section or function of thee organization.

Budgetary control is an important medium of communication for organizational plans and objectives and the progress towards meeting those objectives. It promotes co-operation among directors and managers in the attainment of pre-determined targets.

The involvement of all levels of management with setting budgets is the acceptance of defined targets, the two-way flow of information and other facets of a properly organized budgetary system all help to promote a coalition of interest and to increase motivation.

Management's time is saved and the attention directed to areas of most concern by "exception principle" which is at the heart of budgetary control. Performance of all levels is systematically reported and monitored thus aiding the control of current activities.

The investigation of operations and procedures, which is part of budgetary planning and the subsequent monitoring of expenditure may lead to reduced cost and greater efficiency.

Other advantages of budgetary control include the following:

(a) It compels management planning

(b) It helps to define expectation which is the best framework for judging performance. Sometimes past performance is not a useful guide as inefficiencies can be buried in them.

(c) Budgeting and budgetary control affect the formulation of policies and implementation

(d) Budgetary control aids communication and coordination so that the interests of the individual managers are subordinated to the interests of the business.

(e) Budgetary control helps to fish out weaknesses in the organizational structure and the administration of budget helps to identify problems of communication, fixing responsibility and working relationship.

(f) If budgets and budgetary control are developed to the fullest, they can serve as a stimulation model, a total model sometimes called corporate financial planning model. The master budget can assist in visualizing the position of a company at a future point in time quite vividly and decide whether that position is satisfactory or not.

The budgetary process can be said to be a search for improved operations. It is a continuous effort to get the job done in the best possible way. The budget requires a set of performance standards or targets.

According to Fred (1968), budgets are reviewed to compare plans and results. This process has been called "Controlling to plan". It is a continuous monitoring procedure, reviewing and evaluating performance with reference to the previously established standards.

Establishing standards require a realistic understanding carried of the firm's operations. Arbitrary standards set without a basic understanding of the minimum cost as determined by the nature of the firm's operations, can do more harm than good. Budget imposed in an arbitrary fashion may represent impossible targets at one extreme or standards are unrealistically high thereby leading to frustration and resentment.

Problems Associated with Budgets and their Implementation

Budgets prepared by various organizations are not without problems. They actually suffer from the following identifiable problems:

1. Budgets are based on estimates and data which may not be accurate at the time they were presented.
2. A budget cannot remain static for too long. It must be revised, altered or changed completely to suit changing circumstances.
3. Lack of political will is a problem in budget implementation especially in government circle. Strict adherence to budgets and timely implementation are lacking in the public sector.
4. Some budgets are prepared with unrealistic figures and beautifully painted pictures to attract approval from the government and its agencies. After approval, it becomes impossible to execute the project within the limits of funds approved for it, especially after all the unwritten subtractions have been made.
5. There may be too much reliance on the budgeting technique as a substitute for good management.
6. The budgetary system, because of undue pressure or poor human relationship may cause antagonism and decrease motivation.
7. Variance occur frequently due to changing circumstances, poor forecasting or general uncertainties in the business environment.
8. Budgets are developed round the existing organizational structures and departments which may be inappropriate for current conditions and may not reflect the underlying economic reality.

9. The very existence of well-documented plans and budgets may cause inertia and lack of flexibility in adapting to change.

Limitations of Budgeting

Despite the enormous advantages of effective budgeting system in an organization, there are certain limitations inherent in budgeting. Some of the most glaring ones are enumerated below:

(a) A budget provides only approximate estimates. Hence, results cannot be measured accurately.

(b) Budget may be used to hide inefficiencies sometimes by magnifying unimportant expenses and limiting important ones.

(c) Quick results cannot be achieved as budgets are more conventionally prepared on annual basis.

(d) Budget suffers from psychological reaction and restricts freedom of action. Dale (2012) noted that while on the one hand, people like to know what they are working for and how they will be judged, on the other hand, many of them are resentful of budget restrictions.

Financial and Budgetary Control Policies

Financial control policies include the organization and the content of various types of financial control budget. These include a budget for individual product and for significant activity of the firm. In addition budget will be formulated to control operations at individual's branch offices. These in turn are grouped and modified to control regional operations.

In a similar manner, policies established at the manufacturing, marketing, research and general management levels give rise to a series of budgets. During inflation, the cost of materials will be high and the return on sales will be low as a result of the high cost of labour and material. There will be some effect on financial decision because actual will be more than the budgeted.

Participation in the Budgeting Process

Participation in budget and target setting means that before budgets are finalized, there are discussions with budget holders who are position to influence the level of their budget and target.

According to Dale (2012), participation is the involvement of top management and subordinates in setting up or preparing budget for the year or specified period.

Dale also found that a more authoritarian and less participative management style leads to higher performance while Hopwood found that in constrained and programmed environment, participation was much less effective than those where flexibility and motivation were important.

Where individuals feel that they have more control over their own desires and the organization has genuine decentralized decision-making, participation appears to have positive effects.

Furthermore, sometimes, it does seem that participation in the right circumstances can improve the budget holder’s attitude to the budget system and make it more likely that he will accept the target contained in the budget. However, it is apparent that participation must be used with care and applied selectively considering social and behavioural factors.

Budgeting Control Procedures

According to Stedry (2002), control is the activity which measured deviation from planned performance and provides information upon which corrective action can be taken either to alter future performance so as to confront the original plan or modify the original plan.

The system of responsibility accounting and budgetary control feedback is designed round the organizational structure of the firm. The feedback report of the system should be designed to reflect the different levels of the organization and the duties and scope of responsibility of the

manager concerned at each level of reporting should be interrelated with levels which are above and below the one concerned. In this area, each manager is kept informed of his own performance and of the progress of the budget holder junior to him for whom he is responsible. He also knows that a manager senior to him will receive report suitably summarized and edited on his own performance. This link hierarchical reporting system would, of course, be supported by regular meetings between budget holders and their superiors to review process and performance and to discuss action to be taken and the result of action already taken.

The elements of the control cycle are as follows:

10. A standard specifying the expected performance: This can be in the form of budget, a procedure, a stock level in output rate or some other target.
11. A measurement of actual performance: This should be made in an accurate, speedy, unbiased manner and using relevant units or measures.
12. Feedback of deviations or variations to control unit: In an organization context, the control unity would be a manager. This type of feedback is single loop (i.e. when there is a small deviation).
13. Action by the control unit to alter performance in accordance with the plan. Feedback to higher level control units regarding large variations between performance and plan upon the results of the lower level control unit's action.

2.2.17 The Concept of "controllable" and "Non-Controllable" Items

Controllable is the degree of influence that a specific manager has over the cost or revenue of other items in question. For instance, a controllable cost is any cost hat is primarily subject to the influence of a given manager of a given responsibility centre for a given time span. Ideally, responsibility accounting system will exclude all uncontrollable cost from a manager's performance report or will segregate such cost from the controllable cost. For example, a Mechanics superior performance report might be confirmed by his usage and handling of direct materials and direct labour power.

The basis of responsibility accounting is the partitioning of the whole organization into responsibility or control centres. In the feedback comparison, the manager of a responsibility centre, the budget holder, should not be held responsible for an item over which he has no control. The terms controllable and non-controllable only have meaning related to a particular responsibility centre. What is non-controllable for a lower level budget centre may be controllable at some higher level. It is important that budgetary control report is consistent with the assigned responsibility at each level of the organization and that a budget holder is only held responsible for items which he can genuinely influence.

Non-controllable items may sometimes be included in the feedback report purely for information and communication. This is particularly appropriate for higher level responsibility centres. Every element that appears in the planning budget will be controllable by someone in the organization and should thus appear in their budget. This applies equally to such matters as working capital, cash flow research and development capital expenditure as well as to more normal items such as wages, salaries and expenditure on materials.

Control Reports

The key items usually shown in a budgetary control report are as follows:

14. The budget cost and revenue for the period and year to date
15. The actual cost and revenue for the period year to date
16. The variances together with the trend in the variances.
17. An indication of what variances are significant together with (where possible) analysis and comment which can be used to bring the variances under control.

The recipients of budgeting control report should be encouraged to make constructive criticism of all aspects of the reporting procedures so that it is improved and made more effective.

It should be noted that the budgeted amount would be the flexible budget allowances appropriate to the actual level of activity achieved. Budgetary control can be an integral part of management thought and practice. When conditions favour its employment, a system of budgetary control can

assist in the function of management. Modern management must be forward-looking and must be capable of converting the resources as effectively as possible. From the articles and books cited and the research made in other relevant fields, there is ample evidence showing that that budgetary control was being employed and if not properly implemented, it has effect on financial decision.

CONCLUSION

The preparation of estimates for projects, assets and operations for the future is what is termed budgeting. Budgetary control ensures that actual execution and operations go on within the financial plan made for them.

Modern organizations know too well that without budgeting and budgetary control, an enterprise will find it difficult to achieve its corporate goals and objectives. In other words, the organization or the businessman must be certain where he wants to go and the problems likely to be encountered and the cost of getting to that destination. A manager who operates without a budget is like a captain steering a ship in the sea without being familiar with the creeks and without any harbor in mind.

Strict budgeting and budgetary control measures are therefore required if an organization must achieve its set goals and objectives. Gone are the days when organizations simply embark on projects and programmes without plans and budgets hoping that the invisible hand of nature would come to their rescue in setting matters right (Adam Smith, 1776).

Budgeting, simply put, is planning in quantitative terms and in advance. if an organization fails to plan ahead, the antithetical implication is that such organization has planned to fail. Therefore, the importance of budgeting and budgetary control cannot be over-emphasized especially in today's ever-competitive and challenging business environment.

It is important to note that, for a budgetary system to be successful, it must have top management support and the goals to be achieved must be clearly stated with proper assignment of authority and responsibility to the organization's managers and the entire labor-force. Full participation of managers should be sought while developing budgets. Employees at lower levels of the organization should be educated on the importance of budgeting and budgetary control.

Sound and successful budgeting system is usually based upon certain prerequisites, such as; management attitude, organizational structure and managerial approach necessary for effective and efficient application of the budgets. The following are some of the essential ingredients of sound budgetary system:

1. The budgetary system must receive the support of top management
2. There must be clearly defined budget goals
3. Assignment of authority and responsibility on the budget must be clearly spelt out
4. Responsibility centers must be clearly defined
5. Sound finance and accounting system must be in place
6. Full participation of all employees is necessary for successful budgetary system
7. There should be budget education and an in-built flexibility in the budgetary system.

RECOMMENDATIONS

Taking a cue from the findings of this article, the following recommendations are made:

1. It is important to develop a budget manual which everyone in the organization can refer to for guidance, education and information about the budgetary process.

2- In the face of innovations, technological evolution and socio-economic changes, it is important for an organization to make realistic forecast, sound planning and good budget which should be followed with proper and careful implementation.

3. The management should ensure the introduction of adequate accounting system which will guarantee appropriate checks and balances. Also good management information system should be put in place to communicate to the users, the objectives, uses and benefits of budget and budgetary control.

4. There is the need to train and retrain staff on budgeting and budgetary processes through seminars, conferences and workshops to improve and enhance the performance of the organization.

5. An organization should pay attention to the human side of budgeting. The human side of budgeting demands that budget should be used for performance evaluation of departmental managers in a way it will not lead to unwholesome rivalry among managers.

6. For budgeting to achieve its purpose, it is necessary that the formal budget should not be too restrictive and managers as well as supervisors are allowed some flexibility in taking operational decisions.

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