BUDGETING

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MEANING

- The word ―budget‖ derived from the old English word ―budget tee‖ means a tack or pouch which the Chancellor of the Exchequer use to take out his papers for lying before the parliament, the government, financial scheme for the ensuring year

- Budget as a control device is an extension of planning. After the planning and programming decision, the approved programme is translated into a totaled statement of monetary requirements and financial consequence

DEFINITION

- Budget is a concrete precise picture of the total operation of an enterprise in monetary terms

HM Donovan

- Budget is a operation plan, for a definite period usually a year- Expressed in financial terms and bused an expected income and expenditure‖

PURPOSES

1. Budget supplies the mechanism for translating fiscal 1-year objectives into projected monthly spending pattern.
2. Budget enhances fiscal planning and decision marking.
3. Budget clearly recognizes controllable and uncontrollable cost areas.
4. Budget offers a useful format for communicating fiscal objectives.
5. Budget allows feedback of utilization of budget.
6. Budget helps to identify problem areas and facilities for effective solution.
7. Budget provides means for measuring and recording financial success with the objectives of the institution.

PRINCIPLE OF BUDGET

1. Budget should provide sound financial management by focusing on requirement of the organization.
2. Budget should focus on objectives and policies of the organization. It must flow from objectives and give realistic expression to the way of realistic such objective.
3. Budget should ensure the most effective use of scarce financial and non financial resources.
4. Budget requires that programme activities planned in advance.
5. Budgetary process requires consistent delegation for which fixed duties and responsibilities are required to be allocated to managers at different level for framing and executing budget.

6. Budget should include co-ordinating efforts of various departments establishing a frame of reference for managerial decision and providing certain criteria for evaluating managerial performance.
7. Selling budget target requires an adequate checks and balance against the adoption of too high or too low estimate, almost care is a must for fixing targets.
8. Budget period must be appropriate to the nature of business or service and to type of budget.
9. Budget is prepared under the direction on the supervision of the administration or financial officer.
10. Budget are to be prepared and interpreted consistently throughout the organization in the communication in the planning process

TYPES OF BUDGET

Since budget express plans and an organization may have different types of plans, there may be different types of budgets. These may be classified on the basis of

1. **Coverage of functions**:- ***Master and Functional budgets.***
2. **Nature of activities covered**: – ***Capital and Revenue budgets***
3. **Period of budgets**: – ***Long term and Short-term budgets***
4. **Flexibility adopt**ed: – ***Fixed and Flexible budgets***

1. **Master and Functional budgets:** A master budget is prepared for the entire organization incorporating the budget of different functions.

- For example when we refer to the annual budget of Organisation, it incorporates the budget outlays of different departments or desciplines..
- **A functional budget is prepared:** incorporating a major function and its sub- functions. Since an organization may have a number of functions, numerous functional budgets are prepared. Eg. Production budget, cash budget in an organization.

2. Capital and Revenue budgets An organization activity involves two processes- creating facilities for carrying out activities and actual performance activities. Creating facilities for carrying out activities include capital expenditure whose returns accrue over a number of years. For such activities, capital budget is prepared

Revenue budget involves the formulation of target for a year or so in respect of various organizational activities such as production, marketing, finance, etc. Thus, a revenue budget includes expenditure and earning for a specific period like one year.

3. **Long term and short-term budgets** Many organizations integrate their yearly budgets with long-term projections of business activities and along with yearly budgets; they prepare budgets for a longer period of 2 – 3 years. When one budget period is over, budgets are prepared for the next year and subsequent 2 -3 years.

The short term budget is for a year and is divided into a number of periods for effective implementation. For eg. Cash budgets are on yearly basis as well as on monthly or quarterly basis to facilitate better cash management.

4. Fixed-celling and flexible budgets: Generally, organizations prepare which certain to only certain projected fixed volume of operations for a year or so. Such budgets are known as fixed of static budgets.

- **Flexible budgets** A budget which is designed to change in accordance with the activities of the organization is known as flexible budget.

OTHER TYPES OF BUDGET

1. INCREMENTAL BUDGET

It is based on estimated changes in present operation, plus a percentage increase for inflation, all of which is added to previous year budget.

2. OPEN ENDED BUDGET

Is a financial plan in which each operating manager presents a single cost estimate for each programme in the unit, without indicating how the budget should be scaled down if less funding is available.

3. FIXED CEILING BUDGET

Is a financial plan in which the upper most spending limit is set by top executive before the unit and divisional managers develop budget proposals for their areas of responsibility

4. FLEXIBLE BUDGET

Consist of several financial plans, each for a different level of programmes activates. It is based on the fact that operating conditions rarely conform to expectations.

5. ROLL OVER BUDGET

Is one that forecasts programmed revenues and expanses for a period greater than a year. To accommodate programmed that greater target than annual budget cycle.

6. PERFORMANCE BUDGET

It is one based on functions, which allocate function, not division. Eg. Direct Nursing care, in service education, quality improvement, nursing research.

7. PROGRAMMED BUDGET

- Is one which costs are computed for a total programmed. These base budgets requires the nurse manager to examine, justify each cost of every programmed both old and new in every annual budget preparation.

8. SUNSET BUDGET

- It is designed to —Self Destruct within a prescribed time period to ensure the cessation of spend in by a predetermined date.

9. SALES BUDGET

Is the starting point in a budgetary programmed, since sales are basic activates which give shape to all other activities. Sales budget are compiled in terms of quality as well as of values.

10. PRODUCTION BUDGET

It is the budget that aims at securing the economical manufacture of products and maximizing the utilization of production facilities

STEPS IN THE BUDGETARY PROCESS

- 1. Assessment The first step is to assess what needs to be covered in the budget.
- Historically, top-level managers frequently developed the budget for institution without input from middle or first level managers.
- budgeting today generally reflects input from all level of the organizational hierarchy.
- 2. Develop a plan The second step is to develop a plan. The budget plan may be developed in many ways. A budgeting cycle that is set for 12 months is called a fiscal year budget. This fiscal year which may or may not coincide with calendar year, is then usually broken down into quarters or subdivided into monthly, quarterly or semiannual periods.

- 3. Implementation The third step is implementation. In this step, ongoing monitoring and analysis occur to avoid inadequate or excess funds at the end of fiscal year. In most health institutions, monthly-computerized statements outline each department’s projected budget and any deviations from the budget. Each unit manager is accountable for budget deviations in their unit.
- 4. Evaluation: This is last step. The budget must be reviewed periodically and modified as needed throughout the fiscal year. With each, successive year of budgeting, managers can more accurately predict their unit is budgetary requirements