**INTRODUCTION**

A budget is an estimated results expressed in numerical numbers. Budgetary control is a technique applied to the control of total expenditure on materials, wages and overhead by comparing actual performance with planned performance. This technique is also believed to be another valuable aid in cost control and coordination.

*Objectives of budgeting* are Planning, Directing and Controlling.

### BUDGETS

- **SALES BUDGET:**

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>NAME OF PRODUCTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNITS (FOR SALES) (A)</td>
<td></td>
</tr>
<tr>
<td>SELLING PRICE PER UNIT (B)</td>
<td></td>
</tr>
<tr>
<td>SALES VALUE (A*B)</td>
<td></td>
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- **PRODUCTION BUDGET:**

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>NAME OF PRODUCTS</th>
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<tbody>
<tr>
<td>SALES</td>
<td></td>
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<tr>
<td>Add: CLOSING STOCK</td>
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<tr>
<td>Less: OPENING STOCK</td>
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<tr>
<td>PRODUCTION</td>
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- **CONSUMPTION BUDGET:**

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<thead>
<tr>
<th>PARTICULARS</th>
<th>NAME OF PRODUCTS</th>
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<tbody>
<tr>
<td>PRODUCTION (A)</td>
<td></td>
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<tr>
<td>RAW MATERIAL PER UNIT (B)</td>
<td></td>
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<tr>
<td>RAW MATERIAL CONSUMPTION (A * B)</td>
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### PURCHASE BUDGET:

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<thead>
<tr>
<th>PARTICULARS</th>
<th>NAME OF PRODUCTS</th>
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<tbody>
<tr>
<td>RAW MATERIAL CONSUMPTION</td>
<td></td>
</tr>
<tr>
<td>Add: OPENING STOCK OF RAW MATERIAL</td>
<td></td>
</tr>
<tr>
<td>Less: CLOSING STOCK OF RAW MATERIAL</td>
<td></td>
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<tr>
<td>RAW MATERIAL PURCHASES</td>
<td></td>
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### MANPOWER BUDGET:

<table>
<thead>
<tr>
<th>OPERATIONS</th>
<th>NAME OF PRODUCTS</th>
<th>TOTAL HOURS</th>
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### CONTROL RATIOS

- **ACTIVITY RATIO**
  \[ \text{Activity Ratio} = \frac{\text{Standard Hours} \times 100}{\text{Budgeted Hours}} \]
  Measures the level of activity attained during a particular period of time.

- **CAPACITY RATIO**
  \[ \text{Capacity Ratio} = \frac{\text{Actual Hours} \times 100}{\text{Budgeted Hours}} \]
  Measures the actual usage of budgeted hours of activity.

- **EFFICIENCY RATIO**
  \[ \text{Efficiency Ratio} = \frac{\text{Standard Hours} \times 100}{\text{Actual Hours}} \]
  Measures the level of efficiency achieved in production.
**Question 1**

*Explain briefly the concept of ‘flexible budget’.*

**Answer**

**Flexible Budget:** A flexible budget is defined as “a budget which, by recognizing the difference between fixed, semi-variable and variable cost is designed to change in relation to the level of activity attained”. A fixed budget, on the other hand is a budget which is designed to remain unchanged irrespective of the level of activity actually attained. In a fixed budgetary control, budgets are prepared for one level of activity whereas in a flexibility budgetary control system, a series of budgets are prepared one for each of a number of alternative production levels or volumes. Flexible budgets represent the amount of expense that is reasonably necessary to achieve each level of output specified. In other words, the allowances given under flexibility budgetary control system serve as standards of what costs should be at each level of output.

**Question 2**

*Discuss the components of budgetary control system.*

**Answer**

**Components of budgetary control system**

The policy of a business for a defined period is represented by the master budget the details of which are given in a number of individual budgets called functional budgets. The functional budgets are broadly grouped under the following heads:

(a) Physical Budgets – Sales Qty, Product Qty., Inventory, Manpower budget.

(b) Cost Budgets – Manufacturing Cost, Administration Cost, sales & distribution cost, R & D Cost.

(c) Profit Budget

**Question 3**

*List the eight functional budgets prepared by a business.*

**Answer**

The various commonly used Functional budgets are:

- Sales Budget
- Production Budget
- Plant Utilisation Budget
- Direct Material Usage Budget
- Direct Material Purchase Budget
- Direct Labour (Personnel) Budget
- Factory Overhead Budget
- Production Cost Budget

**Question 4**

*Explain any 4 limitations of Budgetary control system?*

**Answer**

**LIMITATIONS OF BUDGETARY CONTROL SYSTEM :**
1. *Based on Estimates:*
   Budgets may or may not be true, as they are based on estimates.

2. *Time factor:*
   Budgets cannot be executed automatically. Accuracy in budgeting comes through experience. Management must not expect too much during the development period.

3. *Cooperation Required:*
   Staff co-operation is usually not available during budgetary control exercise. The success of the budgetary control depends upon willing co-operation and teamwork.

4. *Expensive:*
   Its implementation is quite expensive. No budgetary programme can be successful unless adequate arrangements are made for supervision and administration.

5. *Not a substitute for management:*
   Budget is only a managerial tool. It cannot substitute management.

   Budgets are considered as rigid document. But in reality, firm’s affairs continuously changes under inflationary pressure and changing government policies.

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**REVISION ILLUSTRATION**

Calculate efficiency and activity ratio from the following data:

- **Capacity ratio = 75%**
- **Budgeted output = 6,000 units**
- **Actual output = 5,000 units**
- **Standard Time per unit = 4 hours**

**ANSWER**

- Efficiency ratio = 111.11%
- Activity ratio = 83.33%