



Budgetary planning and control

7

Chapter preview

Budgets are financial plans. Checking performance against plans assists managerial control. As budgets are normally identified with accountable managers, budgeting is sometimes described as responsibility accounting. Good budgeting is especially important where outputs are diverse, or non-standard, as in a factory research and development department, an advertising agency or, within the public sector, a school, hospital or social services department.

This chapter explains how budgets link financial accountability with the management organisation structure, how they are constructed, and how follow-up reporting and corrective action is needed. Some budgets are ‘fixed’ for the year, and some need to be ‘flexible’ to allow spending to reflect achieved activity volumes and costs. The budget cycle and timetable are explained, and the components of the ‘master budget’, which shadows the annual financial accounts of the organisation, are examined. The behavioural problems in achieving effective budgeting are considered, together with some specialised applications of budgeting, including both private- and public-sector service organisations, budgeting for capital, and the management-by-objectives (MBO) approach to stimulating improvement in management performance.

The chapter then concentrates on the ways in which accounting can contribute to enhancing control within the enterprise, beginning with an examination of the key considerations that need to be taken into account if an organisation is to implement an effective internal control system, particularly with respect to the accounting aspects of that system. It then discusses a major accounting control technique known as standard costing or variance analysis, building on the introduction to flexible budgeting provided earlier.

Within the broader framework of management control we need also to appreciate that not all controls are quantitative controls and that, indeed, not all quantitative controls are accounting controls. Variance analysis is not always appropriate, and in

certain instances in the public sector the budgetary control framework may be supplemented by the use of performance indicators, some of which may have an economic value but may, if necessary, include related issues such as the output, efficiency or effectiveness of a particular management strategy.