

# Concept of Budgeting

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# Introduction

- ▶ Budgeting is the process of preparing detailed projections of future amounts.
- ▶ It is simply balancing our expenses with our income



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- ▶ Budgets describe institutional financial plans over a period of time.
- ▶ Dropkin, Halpin, and LaTouche (2007, p. 3) describe budgets as:  
"a plan for getting and spending money to reach specific goals by a specific time".

# Purpose of Budgeting-

- ▶ Putting business strategy into operation
- ▶ Allocating resources
- ▶ Providing incentives
- ▶ Assigning control
- ▶ Providing means of communication

# Principles of Budgeting



They are as follows-

- ▶ Management Support,
- ▶ Employees Involvement,
- ▶ Statement of Organizational Goal,
- ▶ Responsibility Accounting,
- ▶ Organizational Structure,
- ▶ Flexibility,
- ▶ Communication of Results,
- ▶ Sound Accounting System,

# Types of Budget/Budgeting-

## Current

- A budget that covers the coming financial year is known as current budget.
- Grants received from the Government for a year for carrying out many of their activities.

## Long Term

- A budget that covers more than one year and keeps in view the long range perspective is known as long-term budget.
- Provides a perspective and priority for the current budget to be prepared.

# Process of Budgeting

## **Includes the following-**

- ▶ Careful study of educational needs of the institution.
- ▶ Identification and listing of activities which we want to carry in the institution.
- ▶ Providing estimated cost of each of these resources.
- ▶ Study the budgeting guidelines issued by the government.
- ▶ Explanation how we are supposed to present the budget.

# Continued .....

**Lacy (1989) and Adeogun (2004) noted that budgeting decision making process takes the steps of-**

- ▶ Determination of overall levels of spending.
- ▶ Allocation of estimated available resources among sectors.
- ▶ Responses to budget circular.
- ▶ Preparation of draft budget documents.
- ▶ Approval of draft budget.
- ▶ Preparation of final budget.
- ▶ Consideration by the legislature.
- ▶ Release of funds.
- ▶ Implementation of capital expenditure.
- ▶ Procurements .
- ▶ Monitoring and evaluation.
- ▶ Cash management.



# FUNCTIONS OF BUDGETING-



# Limitations of Budgeting-

- ▶ 1. Budget provides only approximate estimates. Hence results cannot be measured accurately.
- ▶ 2. Another limitation of budgeting is “over-budgeting”. This means the minor expenses are worked out in detail.
- ▶ 3. Budget may also be used to hide inefficiencies. Unnecessary boosting of certain expenditure and deliberately omitting needed items are quite a common practice.
- ▶ 4. Quick results cannot be achieved as it is prepared for a year.
- ▶ 5. One of the important limitations of budget is its inflexibility.
- ▶ 6. Budget has psychological reaction and restricts freedom of action

# References

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