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TECHNICAL

REPORT ON THE

BUDGET AND BUDGETING CONTROL: A PRAGMATIC APPROACH TO THE NIGERIAN ENGINEERING INFRASTRUCURE DILEMMA.

BY

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I. ABSTRACT

In a world of marketing and economics which is the foundation of every structure in the World, the importance of Budgeting and budgetary control cannot be over emphasized. In every field known to man, once the use of time and money are involved budgeting has to come to play. In our world today, time and money are scarce resources to all individuals and organizations; the efficient and effective use of these resources requires planning. Planning alone, however, is insufficient. Control is also necessary to ensure that plans actually are carried out. A budget is a tool that managers use to plan and control the use of scarce resources. A budget is a plan showing the company's objectives and how management intends to acquire and use resources to attain those objectives. Companies, nonprofit organizations, and governmental units use many different types of budgets. This study shows detailed information about budgeting and budgeting control and evaluates the impact of budgeting and budgetary control on the performance of manufacturing company in Nigeria with an approach to Nigerian Engineering Infrastructure.

II. INTRODUCTION

Nations of the world and other entities usually draw up budgets on annual basis in order to properly guide their finance for developmental purposes. The budget is usually a useful tool for directing and driving of a nation's economy if properly put in place. The management of Budgets in terms of their formulation, implementation and monitoring therefore have a lot of Implications for the realization of the objectives of budgets to make lives better for the Citizenry of a country. In many developed countries of the world, the annual national budget had served as a viable approach to development engineering over the years. However, many developing nations have not really achieved the much needed development through budgets. This is as a result of many factors which are primarily human in nature particularly in the area of the formulation and execution of budgets. There is every tendency to waste or under-utilize the limited resources by the human factor involved in the production of goods and services. The great Potential of budgets to serve as instruments of national development cannot be realized if the Budget is not executed with utmost commitment and sincerity of purpose. With various companies competing with one another, only few that are able to produce at least possible cost will survive the growing competition in the market. Therefore, it is paramount for every serious business undertaken to produce at that possible minimum cost so as to remain in business and also achieve the corporate objectives of profitability and stability. Therefore, there is every need to do a realistic planning of the activities of the organization taking into consideration the limiting factors and the long-term objectives of the organization. In order to achieve this, budgeting (a tool of planning and control) becomes indispensable. Budgeting as defined by the Chartered Institute of Management Accountants, England, As a financial and/or quantitative statement, prepared and approved prior to define period of time, of the policy to be perused during that period for the purpose of attaining a given objective. The Oxford Advanced Learners‟ dictionary defined budget as an estimate or plan of the money available to somebody and how it will be spent over a period of time. Dictionaries always emphasize on the word plan when defining a budget, but planning itself is found in all aspect of human endeavor, hence planning is a blue print of business growth and a road map for development that helps in deciding objectives, quantitatively and qualitatively. It involves setting a goal on the premise of the objectives and keeping of the resources. The process of planning requires that managers of business to act as if they are fortune tellers and attempt to predict the future course of action to be adopted. Such prediction of the so-called fortune tellers will determine whether or not the objectives of the firm will be met.

III. LITERATURE REVIEW

CONCEPT OF BUDGET

The Chartered Institute of Management Accountants, England, defines a 'budget' As under: A financial and/or quantitative statement, prepared and approved prior to define period of time, of the policy to be perused during that period for the purpose of attaining a given objective. According to Brown and Howard of Management Accountant a budget is a predetermined statement of managerial policy during the given period which provides a standard for comparison with the results actually achieved. Essentials of a Budget An analysis of the above said definitions reveal the following essentials of a budget:

1. It is prepared for a definite future period.
2. It is a statement prepared prior to a defined period of time.
3. The Budget is monetary and or quantitative statement of policy.
4. The Budget is a predetermined statement and its purpose is to attain a given objective. A budget, therefore, be taken as a document which is closely related to both the managerial as well as accounting functions of an organization.

PURPOSE OF BUDGETING

Below are some of the essences of budgeting for the future:

I. To improve planning and control with ultimate intention of increasing the profit and financial position of the firm;
II. To find the most profitable course of action through which the efforts of the business may be directed in meeting its primary objectives;
III. To assist management in holding the business as nearly as possible on the survival course;
IV. To force management to focus attention on particular operating and financial problems so that effective planning would be made for them
V. To translate the objective of an organization into action;
VI. To coordinate the various factors of production with a view to satisfying all stakeholders

Types of Budgets As budgets serve different purposes, different types of budgets have been developed. The following are the different classification of budgets developed on the basis of time, functions, and flexibility or capacity.

(A) Classification On the basis of Time
- Long-Term Budgets
- Short-Term Budgets
- Current Budgets

(B) Classification according To Functions
- Functional or Subsidiary Budgets
- Master Budgets

(C) Classification On the basis of Capacity
- Fixed Budgets
- Flexible Budgets

(A) Classification on the Basis Of Time Functional Budget Master Budget Fixed Budget Flexible Budget

1. Long- Term Budgets: Long-term budgets are prepared for a longer period varies between five to ten years. It Is usually developed by the top level management. These budgets summarize the general plan of operations and its expected consequences. Long-Term Budgets are prepared for important activities like composition of its capital expenditure, new product development and research, long-term finance etc.
2. Short Term Budgets: These budgets are usually prepared for a period of one year. Sometimes they may be prepared for shorter period as for quarterly or half yearly. The scope of budgeting activity may vary considerably among different organization.
3. Current Budgets: Current budgets are prepared for the current operations Of the business. The planning period of a budget generally in months or weeks. As per ICMA London, Current budget is a budget which is established for use over a short period of time and related to current conditions.

(B) Classification on the Basis of Function

1. Functional Budget: The functional budget is one which relates to any of the functions of an organization. The number of functional budgets depend upon the size and nature of business. The following are the commonly used:

i. Sales Budget
ii. Purchase Budget
iii. Production Budget
iv. Selling and Distribution Cost Budget
v. Labour Cost Budget
vi. Cash Budget
vii. Capital Expenditure Budget

2. Master Budget: The Master Budget is a summary budget. This budget encompasses all the functional activities into one harmonious unit. The ICMA England defines a Master Budget as the summary budget incorporating its functional budgets, which is finally approved, adopted and employed.

(C) Classification on the Basis of Capacity

1. Fixed Budget: A fixed budget is designed to remain unchanged irrespective of the level of activity actually attained.
2. Flexible Budget: A flexible budget is a budget which is designed to change in accordance with the various level of activity actually attained. The flexible budget also called as Variable Budget or Sliding Scale Budget, takes both fixed, variable and semi fixed manufacturing costs into account.

BUDGETARY CONTROL

Budgetary Control is the process of establishment of budgets relating to various activities and comparing the budgeted figures with the actual performance for arriving at deviations, if any. Accordingly, there cannot be budgetary control without budgets. Budgetary Control is a system which uses budgets as a means of planning and controlling. According to I.C.M.A. England Budgetary control is defined by Terminology as the establishment of budgets relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with the budgeted results, either to secure by individual actions the objectives of that policy or to provide a basis for its revision. Brown and Howard defines budgetary control is a system of controlling costs which includes the preparation of budgets, co-ordinating the department and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability. The above definitions reveal the following essentials of budgetary control:

1) Establishment of objectives for each function and section of the organization.
2) Comparison of actual performance with budget.
3) Ascertainment of the causes for such deviations of actual from the budgeted performance.
4) Taking suitable corrective action from different available alternatives to achieve the desired objectives.

Objectives of Budgetary Control

Budgetary Control Is planned to assist the management for policy formulation, planning, controlling and coordinating the general objectives of budgetary control and can be stated in the following ways:

1) Planning: A budget is a plan of action. Budgeting ensures a detailed plan of action for a business over a period of time.
2) Coordination: Budgetary control co-ordinates the various activities of the entity or organization and secure co-operation of all concerned towards the common goal.
3) Control: Control is necessary to ensure that plans and objectives are being achieved. Control follows planning and co-ordination. No control performance is possible without predetermined standards. Thus, budgetary control makes control possible by continuous measures against predetermined targets. F there is any variation between the budgeted performance and the actual performance, the same is subject to analysis and corrective action.

Scope and Techniques of Standard Costing and Budgetary Control

Scope:

1) Budgets are prepared for different functions of business such as production, sales etc. Actual results are compared with the budgets and control is exercised. Standards on the other hand are compiled by classifying, recording and allocation of the expenses to cost units. Actual costs are compared with standard costs.

2) Budgets have a wide range of coverage of the entire organization. Each operation or process is divided into number of elements and standards are set for each such element.
3) Budgetary control is concerned with origin of expenditure at functional levels. Standard costing is concerned with the requirements of each element of cost.
4) Budget is a projection of financial accounts whereas standard costing projects the cost accounts.

Technique:

1) Budgetary control is exercised by putting budgets and actuals side by side. Variances are not normally revealed in the accounts. Standard costing variances are revealed through accounts.
2) Budgetary control system can be operated in parts. For example, Advertisement Budgets, Research and Development Budgets, etc. Standard costing is not put into operation in parts.
3) Budgetary control of expenses is broad in nature whereas standard costing system is a far more technically improved system by means of which the variances are analyzed in detail.

Requisites for Effective Budgetary Control

The following are the requisites for effective budgetary control:

- Clear cut objectives and goals should be well defined.
- The ultimate objective of realizing maximum benefits should always be kept uppermost.
- There should be a budget manual which contains all details regarding plan and procedures for its execution. It should also specify the time table for budget preparation for approval, details about responsibility, cost centers etc.
- Budget committee should be set up for budget preparation and efficient execution of the plan.
- A budget should always be related to a specified time period.
- Support of top management is necessary in order to get the full support and cooperation of the system of budgetary control.

- To make budgetary control successful, there should be a proper delegation of authority and responsibility.
- Adequate accounting system is essential to make the budgeting successful.
- The employees should be properly educated about the benefits of budgeting system.
- The budgeting system should not cost more to operate than it is worth.
- Key factor or limiting factor, if any should consider before preparation of budget.
- For budgetary control to be effective, proper periodic reporting system should be introduced.

IV. **METHODOLY**

The methods adopted by this researcher in collecting the data are direct interviews, observations carried out using the Survey Monkey application. Inquiries were made indirectly through some unusual questions to both the staff and management of the company. Population, Sample and Sampling Technique The study focuses on budgeting and budgetary control of manufacturing company, with special reference to UAC Foods Nigeria Limited. In order to carry out an in-depth and comprehensive study, 30 respondents were randomly selected. These respondents cut across all the cadres of the company and its customers. Instrument The primary data was employed in gathering information from staff of all cadres. Interviews were also conducted with other stakeholders, including customers of company. The survey consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research. Validity and Reliability of the Instrument To ensure the validity of this research, the instrument was subjected to criticism by specialist in the area of educational management aside from peer review conducted by the researcher. The reliability of the instrument was obtained through a test-retest technique to analyze the data collected.

Steps in preparing a cash budget

i) Step 1: set out a pro forma cash budget month by month. Below is a suggested layout.

	Month 1	Month 2	Month 3
	NGN	**NGN**	**NGN**
Cash receipts			
Receipts from debtors			
Sales of capital items			
Loans received			
Proceeds from share issues			
Any other cash receipts			
Cash payments			
Payments to creditors			
Wages and salaries			
Loan repayments			
Capital expenditure			
Taxation			
Dividends			
Any other cash expenditure			
Receipts less payments			
Opening cash balance b/f	W	X	Y
Closing cash balance c/f	X	Y	Z

ii) Step 2: sort out cash receipts from debtors

iii) Step 3: other income

iv) Step 4: sort out cash payments to suppliers

v) Step 5: establish other cash payments in the month

Figure 4.1 Composition of a master budget

OPERATING BUDGET	**FINANCIAL BUDGET**
consists of:-	consists of
Budget P/L acc: get:	Cash budget
Production budget	Balance sheet
Materials budget	Funds statement
Labour budget	

Admin. budget

Stocks budget

V. RESULTS AND ANALYSIS

After the following steps were carried out and the survey undertaken, the following were deduced and collated. The following findings were able to be observed from this particular companys survey.

- There was no significant relationship between budgetary planning and control on organsation performance;
- Effective Budgetary Control does not influence the result achieved.
- Budget technique is of no importance in a manufacturing firm
- Budgetary control does not affect the working performance of an employee in a manufacturing organization.

Table 1:There was no significant relationship between budgetary planning and control the organisations performance.

SUBJECT	NO.	%	T-CALCULATED	TABLE VALUE	DECISION
AGREED	27	90	43.72	7.69	REJECT
DISAGREED	03	10			

Level of significance -0.5

T-calculated is greater than table value in table 1. The Null Hypotheis was rejected. Alternatively we may conclude that there is a significant relationship between budgetary planning and control in an organisations performance.

Table 2: Effective budgetary control does not influence the result achieved

SUBJECT	NO.	%	T-CALCULATED	TABLE VALUE	DECISION
AGREED	24	80	28.12	7.69	REJECT
DISAGREED	06	20			

Level of significance -0.5

T-calculated > table value

The alternative is required. Effective budgetary control is sure to influence the result achieved by the organization.

Table 3: Budgeting technique is of no importance to the manufacturing Firm.

SUBJECT	NO.	%	T-CALCULATED	TABLE VALUE	DECISION
AGREED	21	70	25.00	7.69	REJECT
DISAGREED	09	30			

Level of significance -0.5

T-calculated > table value

The budgeting technique should be of outmost importance to thr manufacturing firm. This is the alternate approach and should thus be taken into consideration.

Table 4: Budgetary control does not affect the working performance of an employee in Manufacturing concern.

SUBJECT	NO.	%	T-CALCULATED	TABLE VALUE	DECISION
AGREED	19	63.33	16.63	7.69	REJECT
DISAGREED	11	36.67			

Level of significance -0.5

T-calculated > table value

Alternate approach required. It will affect the working performance of an employee in Manufacturing concern.

VI. CONCLUSION

A budget is seen as an effective tool for management in coordinating the affairs of the organisation. However, to prepare a budget, an organisation must know where it is heading to. Budget is futuristic in nature, it states what an organisation wants to achieve in the future. A system of budgetary control compels management to look into the future and use all techniques that can be used to shape the future. The budgeted figures must be compared with the actual results on timely basis throughout the year to ensure that management knows where deviations are occurring and to take corrective measures. The budget should be seen as a guide that reflects management's thinking at the time it was prepared. However, the budget should be flexible in nature so that it will be able to accommodate necessary changes. The objectives of manufacturing companies should be to satisfy the needs of their customers as well as making profit. Budget is indeed an effective tool for cost control in manufacturing industries. It is not only good to have a good budget in manufacturing industries but the combination of a good budget and good management will produce a good result. Budget has helped management to systematically plan ahead and organise the company by placing economic and human resources in the most financially rewarding areas and to make various managers aware of the scarce resources. Budgets have helped to coordinate the various segments of the company and achieve goal congruence. Budgetary control is extremely important and effective for management in piloting the affairs of the company. Finally, it is important to note that budget serves as a tool used by management to control cost in manufacturing industries.

Hence budgetary control in an important tool for any organization to establish a budget for future events. It helps organization in proper utilization and control of its resources. Budget are estimates and are based on forecast which are not certain. Therefore the effectiveness of budgetary control depend on the availability and quality of the forecast.

VII. RECOMMENDATIONS

On the basis of the findings from this study, the following recommendations are made to the management of various manufacturing companies for improved budget performance:

- It is important to make a realistic forecast: The budget set by the management should be that which is attainable. The figures contained in the budget should be attainable no matter the prevailing economic circumstances. This is because the cause of variation between the budgeted and actual figures is unrealistic targets. If the targets are realistic, employees will strive hard to meet the target.

- Sound planning followed by a good budgeting system: It is necessary to prepare a budget manual which everyone will follow and refer to for guidance and information about the budgetary process.

- Punishments for failing to meet targets should not be too harsh. This might drive workers to engage in unethical practices just to ensure that budget targets are met.

- Formulation of effective and efficient policies and strategies: Management should formulate policies and strategies that can enable them to monitor and maintain effective control of their operation and attain the optimal level of performance.

- Employee participation should be involved in budget preparation because active participation of employees is more effective than when budget is being imposed on them.

- Budget should be set in such a way that it will lead to goal congruence.

VIII. REFERENCES

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