

WHAT ARE THE OBJECTIVES OF BUDGETARY CONTROL SYSTEM?

The objectives of a Budgetary Control System are

- 1. Definition of Goals:** Lays down the overall aims of the business and determines targets of performance for each section or department of the business.
- 2. Defining Responsibilities:** Laying down the responsibilities of each individual so that everyone knows what is expected of him and how he will be judged.
- 3. Basis for Performance Evaluation:** Provides a yardstick against which actual performance can be compared.
- 4. Corrective Action:** Identifies areas requiring attention where actual amounts significantly differ with expectations. It helps to take timely corrective measures.
- 4. Optimum use of Resources:** Helps direct capital expenditure to the most profitable areas.
- 5. Coordination / Synergy:**
Coordinates the various activities of the business and centralizes control.
- 6. Basis for policy:** Providing a basis for revision of current and future policies where deviations from plan can be explained and the assumptions revised accordingly.
- 7. Motivates employees** by participating in the setting of budgets.
- 8. Economises management time** by using the management by exception principle.

WHAT ARE THE DISADVANTAGES/LIMITATIONS OF THE BUDGETARY CONTROL SYSTEM?

- 1. Estimates:** Budgets are based on a set of circumstances and assumptions which may not hold true.
- 2. Budgets can fail to forecast events** such as: Foot & Mouth, Exceptional Weather Conditions, Shortages of key raw material and skills, travel disruption etc.
- 2. Rigidity:** Budgets are sometimes considered as rigid documents. Any fixation with “bringing in the budget” can impact adversely on the actual results for the year.
- 4. Lack of coordination:**
Staff cooperation may not be forthcoming.
- 5. Time and Cost:** The introduction and implementation of the system may be expensive.
- 6. Budgets can fail to allow for non quantitative matters** such as the good name of the product or service, impact of adverse publicity etc.