

Budgetary Control System in India: An Overview

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Abstract – The term Budget comes from the French word 'BOUGETTE' meaning 'leather bag.' or 'sack' or 'pouch'. According to the British legacy, India's Union budget has been submitted in accordance with the British Budget on the last working day of February. In 2001, the Finance Minister then presented this report to the House. This was stopped. Every year, on the last working day in February, the Minister of Finance of India presents the Union Budget of India (General Budget). The term budget is not used in the Indian Constitution but AFS (Annual Financial Statements) which shows government receives and payments under three parts where government accounts are kept- In the Indian Constitution

Consolidated Fund, Public Account and Contingency Fund. Financial jargon for managing revenue and spending is budgetary control. In practise, this means regularly comparing actual revenue or expenditure with planned revenue or expenditure in order to determine whether corrective action is needed or not. Comparing budgets with actual operational results is referred to as budgetary control. Such budget control supports departmental planning, coordination, decision-making, operational results monitoring and employee motivation towards business targets. Budgetary control is the cycle through which budgets are ready for the future time frame and contrasted with the real exhibition, to recognize fluctuations where proper. The compare of estimates with actual figures will help the management to detect differences and to take immediate corrective measures. In India the Budget plays an important role for making Policies of Welfare Programme for the development of poor and needy people.

Key Words – Budgeting, Budgetary Control, Budget Preparation, Management action and Cost control, Master budget, Price and quantity variance, Responsibility Centers, Zero based budgeting

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INTRODUCTION

Even though budgeting in ancient and medieval India was Modern budgetary practises, known not only as their essential but also as quite detail, began to take shape with the British Crown directly taking over the governance of the country. In general, three steps have been taken in the evolution of budgeting. First of all, a subsystem of the British Government was the Budgeting System. Financial goals were subject to colonial power's limited goals. The characteristics of this period were control of expenditure and accountability. Secondly, the achievement of independence replaced the limited objectives of the British Raj with the nation's development priorities. In the third phase, the budgetary exercises were targeted at providing a planning approach. These three phases reflect the so-called incremental budgeting, performance budgeting and 0 base budgeting systems, respectively. The system described in the following sections is that which is currently practiced and is the end result of all the budgetary innovations introduced with varying degrees of success. The Kautilya Arthashastra describes the administration during the Mauryan period, and refers to an optimal budgetary system

with very detailed rules of minute. about the maintenance, preparation, submission and scrutiny of accounts. The Minister of Finance noted the opening balance in the treasury every year, all current expenditure, including in-house capital projects (Karaniya) as well as those completed (Siddham). Along with this there was a detailed statement of receipts from all sources; and also a statement of the closing balance anticipated at the end of the year. All income and outputs, on income and capital accounts, were kept fully and accurately; plans were also drafted and included in the budget of all proposed new, profitable investment expenditure. The financial statements included estimates for next year and the actual results for that year are just over. The entire Cabinet was so to speak in a conclave to examine them and to pronounce in all respects its precision, completeness and satisfaction. They had also been responsible not only for the assessment of the real figures, but also for the recording of expenditures with vouchers and receipts, but also for ensuring that the full value of every spent pie is paid for. A system of fines or rewards helped to make the system very effective. Both rewards and penalties fell on clerks as well as on superior officers,

inspectors or even the auditor-general. The governors of the Sultanate of Delhi and the Mughal Empire continued to have an equally different financial system from the Mauryan one. The Indian Financial Authority was effectively controlled by the East India Company with the advent of British rule. Back in 1833, there was no centralised financial system, and the President's offices of Bengal, Mumbai or Madras were quite independent in finance. This changed position with the 1833 Charter Act which entrusted the Governor General of India-in-Council with superintendence, management and control of all income. The main activity of the East India Company being territorial expansion, expenditure on costly wars mounted. Great sums were transferred to UK on behalf of India, including the maintenance expenses of the Office to East India Company, in relation to interest payable to Indian debt, investment interest on railway lines, and military and civil charges allegedly incurred in England. The fact that the Governors of the three Presidencies had hardly any permanent post of a Prince's salary can be seen. any powers of more than Rs. 10 per month. The monetary organization was disorder following the main battle of autonomy in 1857. The financial system became aligned with the system prevailing in Britain with the Crown's takeover of the Indian administration. Imperial's objectives dictated a highly centralized system of financial and administrative control. In India in 1860, Sir James Wilson, the then Finance Member of the Governor-General-in-Council, formally introduced the first budget. There was at that time no elected legislature in India. The budget was also not presented to the British Parliament. However, the budget made the Vice-Roy/Governor-in-Council responsible to the London Minister of State who took charge of Indian affairs as a member of the British Cabinet. The Secretary was the fountain of all powers. He delegated powers to the Governor-General of India. The powers had to be exercised within the ambit of rules and regulations which had to be strictly followed. Thavaraj says that during the period 1858-1935 the fundamental characteristics of the financial system were in India:

- i) The Secretary of State was the Chief Financial System Regulator;
- ii) Delegated financial authority has been exercised by the Governor General in Council;
- iii) The Department of Finance was the Indian Finance Custodian and
- iv) Indian Audit and Accounts have been jointly held by the Controller General.

The Secretary of State controlled Indian finances through:

- a) Acceptance of the Indian budget;

- b) Regulation and control of expenditure through voluminous Rules, Regulations and Codes; and
- c) Through numerous executive orders.

Despite the reforms that Lord Mayo introduced in 1870, Lord Lytton in 1877, Lord Rippon in 1882 and Lord Curzon in 1904, the budgetary system retained these aspects more or less. But after the Chelmsford reforms in 1919, the scene changed significantly. In 1921 for the first time, with a non-official majority the Central Legislative Assembly was granted the right to discuss and adopt the Government for 'non-reserved' subjects the annual budget and also to adopt the finance act containing proposals for taxation. However, in the event of their rejection by the legislature, the Governor General was authorised to "certify" the financial proposals. The provincial governments had to seek the approval from the central government for all rupees spent before these reforms were introduced. Realistic provincial autonomy is firstly introduced by Montague Chelmsford reforms. Central and provincial revenue managers have been clearly marked. Therefore, over the provincial financial departments, the importance of the supervisory role of the finance member declined considerably and disappeared after 1935 altogether. However, the Secretary of State suffered no decrease in his supreme authority after the reforms of 1919. Nothing of significance could happen without his knowledge. But he intervened only when the imperial interests were in jeopardy. The Indian Government Act of 1935 gave its powers a blow. The Secretary of State gave up most of its powers, except for control over its services. Special powers and prerogatives were exerted by the Governor General and the governors over what have been called the subject of reservations, which are not subject to legislative financial controls with charge items. They could also restore a demand rejected or reduced by the legislatures. Again, no expenditure could be incurred even if it was duly authorized by the legislature unless it was included in a schedule of expenditure authenticated by the Governor-General or the Governor. Therefore, the financial control system was very rigid, rules-oriented and complex when the budget was formulated and expenditure approved. Naturally, this system inhibited and suppressed any popular change and development initiative. Understandably, financial management control was a necessary complement to the fundamental imperial goals. It was never designed to help resolve domestic problems. This system was the one that India has inherited from the British with all its distortions and rigidities.

PRINCIPLES OF BUDGETING

The fundamental standards by and large saw in government planning in India are:

- i) Principle. The budget is to be made annually, leading to another 'lapse rule' rule. This rule is operating at the end of the year and causes a rush in expenses. It does nevertheless have the merit of enforcing parliamentary sanction, which always has to be obtained for a certain period. This means that the non-used balance lapses if the funds voted on are not used by the end of the year.
- ii) The budgets of the State shall be in cash.
- iii) All financial transactions of the government should have a single budget. In the absence of one common budget it would be difficult to assess the true financial position of the government. However, railways and other public enterprises have distinct budgets. The budget of the Central Government for railways includes total receipts and spending. The estimates of the disbursement of capital and credit and additional budgetary resources are also shown in the Central Budget for financing public enterprise plans.
- iv) The budget must be gross rather than net. Gross transactions should be shown, for each department's receipts and expenditure. Any receipt from collection charges or other expenses that accrue to the Department shall not be deducted. This expects to guarantee important parliamentary control of use. Without this provision, if there were no, only the net deficit would decrease the budget before the Parliament.
- v) It should be close to budgeting. The work or estimates, which lead to large fluctuations and misallocation of funds, should not be imagined, additional subsidies.
- vi) The form of assessments should be the accounting headings since the system-I estimates will eventually be transformed into real revenue and expenditure accounts. The government's financial year was from 1 May to 30 April, when the first modern budget was presented in 1860. However, starting in 1866, the financial year in compliance with practise in England was changed to April-March. This practice has been the subject of debate and various committees and commissions which examined the issue have been critical of it. It is observed by the Administrative Reforms Commission in its report on finance, accounts and audit."The financial year starting from the 1st of April is

not based on custom and needs of our nation. Our economy is still largely agricultural and depends on the behaviour of the primary monsoon. A realistic financial year should enable a correct evaluation of revenue, synchronise it with a maximal continuous working season and make expenditure evenly wider. Indians in India have been used to starting their business year on the day of Diwali for centuries. The roots of this practise are in their way of life. The business community and other sections of society begin Diwali day with the feeling that they have completed and embarked on a new period of activity. It is therefore necessary for Diwali to be associated with the start of the financial year and to specify a date for it, we recommended that the beginning of the financial year be 1 November." The commission also thought that a budget year commencing on the 1st November would be better suited for the transaction of Parliamentary business. It is normally argued that, by September and predictably during the year, the impact of the South West Monsoon, responsible for over 90 percent of Indian's total annual precipitin rainfall, is known to occur. The commercial and industrial activities are also largely dependent on the performance in the agricultural sector. Besides, the monsoon months can be utilized for budget formulation and the critical fiscal parameters can be decided upon in the light of anticipated level of economic action in the resulting year. In accordance with the current arrangements, it is very difficult to start building the budgeted works shortly after the executing agencies reach the expenditure sanctions. These works must wait until the rain is over. The speed of work is affected when the preparatory work of the projects has hardly been completed by monsoons. The delayed work results in an acceleration of expenditure at the end of the financial year which leads to the surrender of funds. Essentially a Budget Year should help in performing the following functions:

- i) making a fairly accurate estimates of revenue;
- ii) making a fairly accurate estimates of expenditure;
- iii) it should facilitate an efficient execution of projects; and
- iv) the budget calendar should be convenient to the legislators and administrators.

Different dates have been suggested by the various experts who have examined the question of financial year. These are 1st January, 1st October, 1st July, or 1st November. While there is a merit in each one of these suggestions, none of these can reconcile the conflicting criteria proposed. Taking the criterion of greater revenue predictability only into consideration, no single budget year allows the individual countries to assess both the kharif and rabi crops in a realistic manner. For some states, rabi plants are very important. Therefore, the estimate of total agricultural production would remain an imagination. The balance of advantages is therefore argued in that the current fiscal year has not been disturbed. The economy's database covers the existing financial year and any dislocation in the current year will lead to administrative problems for the statistics, accounting and Indian budget system. One must assess the advantages of switching to another fiscal year against the inherent disadvantages of such a shift. And you have to keep in mind that the alternative fiscal year is not generally agreed.

The only practical approach, therefore, is to continue with the present financial year. Budgetary control is the process through which the enterprise calculates different actual results for the future period with the estimates and then compares standards to actual performance in the calculation of the variances. Budgets are first and foremost prepared, followed by actual findings. The comparison of budgeted and actual figures will allow the management to identify discrepancies and take corrective action at the right time. Budgetary control is an ongoing planning and coordination process. It offers a control method as well. A budget is a tool and the end result is budgetary control.

DEFINITIONS

- "The budgetary control is, according to Brown and Howard, a cost control system that includes budget preparation, coordination and responsibility of departments, comparison of actual performance to what is forecast and the implementation of results to maximise profits."
- As an advance plan of the various functions of a business, Weldon characterises budgetary control in order to control the entire business.
- D. • D. "A system that uses budgets to plan and control all aspects of commodity production and/or selling services," Batty defines. Batty
- Welsch relates the daily control process to budgetary control." According to him, "Budgetary control involves the use of budgetary and budgetary reports to

coordinate, evaluate and control day-to-day operations in accordance the objectives established over the entire period in the budget."

It is clear from the definitions above that the following are involved in budgetary control:

- (a) Objects shall be established by budget preparation.
- (b) The business shall be divided into different centres of responsibility for the preparation of different budgets.
- (c) Real figures are registered.
- (d) For the analysis of the performance of different cost centres, the estimated and actual figures are compared.
- (e) Where actual performance exceeds the expected standards, remedial action is immediately taken.

CHARACTERISTICS OF A BUDGET

The main features of an brilliant budget are: comprehension (with as many people as possible), (within the organisation as a whole), participation (with as many people as possible, development of the budget), standards (within defined performance standards), flexibility (with the right to change circumstances) and feedback (with the constant monitoring of performance).

OBJECTIVES OF BUDGETARY CONTROL

For strategy arranging and control, budgetary control is fundamental. It is additionally an organizing apparatus. As follows, the main targets of budgetary control are:

1. The requirements and expected performance of the company are anticipated in order to guarantee future planning by establishing various budgets.
2. Operating efficiency and economy in various cost centres and departments.
3. Waste disposal and profitability increase.
4. In anticipation of future capital spending.
5. The control system can be centralized.
6. Fixed deviations from the standards established.
7. Assignment of the responsibility of different people in the company.

ESSENTIALS OF BUDGETARY CONTROL

For the effective execution of the budgetary control system, there are sure advances required. These are the follow:

1. Budgetary Control Organization
2. Centers for Budget
3. Manual of Budget
4. Officer of Budget
5. Committee on Budgets
6. Period of Budget
7. Important Factor Determination

ORGANIZATION FOR BUDGETARY CONTROL

The correct association is fundamental for the successful planning, support and the board of spending plans. A budgetary committee composed of the departmental heads of different departments is established. All functional heads are responsible for ensuring their respective departmental budgets are properly executed. The CEO is the general budgetary system representative. The Budget Officer shall be the convener of the Budget Committee, which shall coordinate the budgets of various departments. It is the Committee on the Budget. Their departmental budgets are the responsibility of departmental managers.

BUDGET CENTRES

A budget centre is the part for which this budget is prepared. The division, office, or some other piece of the office can be a budget place. Budget centers should be established for all parts of the organization. Cost controls also require the budget centers. When different centers are set up, assessment performance of various parts of the organization becomes easy.

BUDGET MANUAL

A budget manual describes individual budget managers' responsibilities and tasks. The relationship between different functionaries is specified.

BUDGET OFFICER

The top of the organization selects an individual as the budget officer. The budgetary officer is entitled to examine, modify the budgets drawn up by different heads if the situations so demand. The budget officer is informed of the department's actual performances.

He determines the budget and actual performance variations and, where applicable, takes the necessary steps to correct the deficiencies. He works as a departmental coordinator and monitors the information. He also reports on the performance of various departments to top managers. Only if you are familiar with the functioning of all departments can the budget officer complete his work fully.

BASIC ESSENTIALS OF BUDGETARY CONTROL

Budget Committee

The accountant is responsible for preparing and executing budgets for small-scale concerns. A committee known as the Budget Committee has been set up in large-scale concerns. This committee is composed of the heads of all the important departments. The Committee prepares and implements budgets. The Committee is responsible. The committee members are working on their respective departments and assist the committee in making collective decisions if necessary required. The Budget Officer shall convene this Committee.

Budget Period

A budget period is the duration of the preparation and use of the budget. There are a number of factors which depend on the budget period. It can differ in various industries or even in the same industry or company. All the factors mentioned below are taken into account during the budgetary period

The period for the budget depends on the following:

- (a) The type of budget i.e. budget for sales, budget for production, purchase of the raw materials, budget for capital expenses. A capital expenditure budget can be purchased for an extended period of 3 to 5 years.
- (b) The nature of the product demand.
- (c) The timing of the finances' accessibility.
- (d) The country's economic situation.
- (e) The trade cycle duration.

DETERMINATION OF KEY FACTOR

Budgets for all functional areas are prepared. These are interrelated and interdependent budgets. Effective coordination between various budgets is essential to ensure the success of fiscal control. Restrictions on certain budgets can also influence

other budgets. A factor that affects all other budgets is known as a Key Factor. The amount of goods that a company can sell may be limited. Sales are a major factor and the amount of goods that the company can sell is taken into account in preparation of all additional budgets. The supply of raw materials may be limited and therefore budgets for production, sales and cash shall be determined on a raw material basis. Furthermore, if the provision of other factors is readily available, plant capacity may be an essential factor. The main factor may not be the same. The supply of raw materials may at one time be limited but at another time can easily be available. Sales can be increased by adding additional sales personnel, etc. Similarly, at different times, other factors may improve. The main factor also emphasises the company's limitations. The management will improve the functioning of the departments in which improvement is possible.

ADVANTAGES OF BUDGETARY CONTROL

The budgetary control system helps to define the objectives of the entire organisation and works together to achieve them. It allows the company's economies.

The budgetary control has some advantages:

1. **Maximization of Profits:** The budgetary check aims to maximise the company's profits. A proper planning and coordinating of various functions is carried out in order to achieve this objective. Various capital and income expenses are properly controlled. Resources are the best way to use them.
2. **Co-ordination:** Work between various departments and sectors is well coordinated. The budgets of the different departments are linked. For the achievement of the budgetary goals, coordination between different executives and subordinates is necessary.
3. **Specific Aims:** The top management decides on the plans, policies and objectives. Every effort is made to achieve the organization's common aim. There is a goal to be achieved for each department. The effort is aimed at achieving certain specific objectives. If no definite objective exists, efforts to achieve different aims will be wasted.
4. **Tool for Measuring Performance:** Budgetary control gives an instrument to estimating the exhibition of the executives by setting focuses for various departments. Budget targets are determined and deviations are compared with actual results. Each department's performance is reported to the top administration. This system allows management to be introduced exceptionally.
5. **Economy:** There will be systematic expenditure planning, and spending will be economical. The finances will be optimally utilised. Ultimately, the benefits of the business will extend to both the industry and the national economy. The economic use of national resources and waste disposal will take place.
6. **Determining Weaknesses:** The differences in budgeted and current performance will allow weak points to be determined. Efforts focus on the aspects in which performance is less than what is specified.
7. **Corrective Action:** Management can take corrective measures if performance discrepancies are present. The deviations are reported regularly so that necessary measures are taken as soon as possible. The deviations may just be resolved without a budgetary control system toward the finish of the monetary period.
8. **Consciousness:** It creates employee budget awareness. They are made aware of their responsibilities by setting targets for employees. Everybody knows what to do and he continues uninterruptedly with his work.
9. **Reduces Costs:** Budgetary control has an important role to play in the current competitive world. Each entrepreneur tries to reduce production costs in order to increase sales. He tries to have products combined with higher profitability.
10. **Introduction of Incentive Schemes:** The system of fiscal control also allows for the introduction of compensation incentives. The comparison between the forecast and the actual results will enable these schemes to be used.

LIMITATIONS OF BUDGETARY CONTROL

Although there are many good budgetary checkpoints, this system has certain limitations:

1. **Uncertain Future:** Estimates are prepared for the future period. The forecasts are not always possible, but the best estimates for the future are made. The future is ever uncertain and the prevailing situation can change in the future. The change in future circumstances upsets the budgets to be prepared in accordance with some premises. Future uncertainties reduce

the utility of the budgetary control system.

2. **Budgetary Revision Required:** Assessments for future are readied. The predictions are not always true, even if the best estimates for the future are made. The future is always uncertain and the situation in the future can change. In the future, the change will change the budgets that are to be prepared in accordance with certain premises. The usefulness of the budgetary control system reduces future uncertainties
3. **Discourage Efficient Persons:** The objectives are given to all individuals in the organisation under the budgetary control system. People have a common tendency to achieve the objectives only. Some efficient individuals may be able to exceed the targets, but they are also happy to achieve the goals. Budgets can therefore be used as restrictions on managerial initiatives.
4. **Problem of Co-ordination:** The accomplishment of budget control is controlled by the planning capacity of various departments. One department's performance affects other departments' results. A budgetary officer is necessary to resolve the coordinating problem. Every endeavour cannot allow a budget officer to be appointed. The lack of coordination between the various departments leads to poor performance.
5. **Conflict among Different Departments:** Budget control can lead to disputes between functional departments. Without thinking about a business objective, each head of department worries about his departmental objectives. Each department attempts to receive maximum funding, which creates a conflict between various departments.
6. **Depends upon Support of Top Management:** The budgetary control framework depends upon the assistance of the organization. The management should be enthusiastic about and support the success of this system. If the top management support is missing at any time, this system collapses.

CONCLUSION

Control of budgets is important in the preparation of a budget for future events for any nation and organisation, too. It helps nations and every organisation to use and control their resources properly. Budgets are estimates based on uncertain forecasts. Thus, the budgeting system offers management, once developed, a means for

monitoring and comparing its activities with budgetary targets. A comprehensive profit programme involves the budgeting of the materials and parts used in manufacturing and other processes.

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