

F&B SERVICE MANAGEMENT
UNIT- 6
BUDGETARY CONTROL



CH: 1.
DEFINE BUDGET





CH: 1. DEFINE BUDGET

A budget is a statement expressed in monetary &/or quantitative terms, reflecting the policy of a business and determining business operations in respect of a particular trading period. In a business, organization budget represents an estimate of future costs and revenues. There are two types of budget: capital budgets and operating budgets.

A **budget** is a financial plan for a defined period, often one year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows



CH: 1. DEFINE BUDGET

The following stages would be useful while preparing a budget for the restaurant/ catering unit:

- ❖ Establishing financial objectives
- ❖ Forecasting revenue
- ❖ Estimating expenses
- ❖ Determining net income
- ❖ Reviewing and approving the budget



CH: 1. DEFINE BUDGET

Once the budget is approved, operational budgetary control methods need to be followed for proper financial management by the food and beverage department.

Different types of budgets are prepared for different purposes e.g. sales budget, production budget, raw material budget, administrative budget etc. all these sectional budgets integrated into a master budget which represents an overall plan of the organization.

BUDGETING: Budgeting is the process by means of which budgets are evolved for a business as well as the various departments/sections of a business.

CH: 2.
BUDGETARY CONTROL





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Throughout the budget period, the use of budgets & budgetary reports for the purpose of coordinating, evaluating & controlling day-to-day operations according to the goals which are specified by the budget is involved by budgetary control. The mere presentation of budget doesn't have much value, its real value lies in the aspects of the planning & its utilization during the period for the purposes of control & coordination. Under budgetary control, actual results are constantly checked & evaluated & comparison of the actual result is made with the budgeted goals & wherever indicated, corrective action should be undertaken.



CH: 2. BUDGETARY CONTROL

The following steps are involved in the process of budgetary control:

- (a) The objectives which are required to be achieved by the business should be defined & specified by budgetary control.
- (b) For the purpose of ensuring that the desired objectives are accomplished, business plans are needed to be prepared by budgetary control.
- (c) Budgetary control translates the plans into budgets & relates to particular sections of the budget, the responsibilities of individual executives & managers.
- (d) Budgetary control constantly compares the actual results with the budget & the differences between the actual & budgeted performance are calculated.



CH: 2. BUDGETARY CONTROL

- (e) For the purpose of establishing the causes, the major differences are investigated by budgetary control.
- (f) In a suitable form, budgetary control presents the information to the management, relating to variances to individual responsibility.
- (g) In order to avoid a repetition of any over-expenditure or wastage, management takes corrective actions. Alternatively, where due to the change in circumstances, the budgeted targets cannot be achieved, the budget is revised.



CH: 3.
**OBJECTIVES OF BUDGETARY
CONTROL**





CH: 3. OBJECTIVES OF BUDGETARY CONTROL

- ❖ **COMPEL FOR PLANNING**: As management is forced to look ahead, responsible for the setting of targets, anticipating of problems & giving purpose & direction to the organization, this feature is the most important feature of budgetary control.
- ❖ **COMMUNICATION OF IDEAS & PLANS**: Communication of ideas & plans to everyone is affected by budgetary control. In order to make sure that each person is aware of what he is supposed to do, it is necessary that there is a formal system.
- ❖ **ESTABLISHING A SYSTEM OF CONTROL**: A system of control can be established by having a plan against which progressive comparison can be made of actual results.



CH: 3. OBJECTIVES OF BUDGETARY CONTROL

- ❖ **COORDINATING THE ACTIVITIES:** The budgetary control coordinates the activities of different departments or sub-units of the organization. The coordination concept implies, for example, on production requirements, the purchasing department should base its budget & similarly, on sales expectations, the production budget should, in turn, be based.
- ❖ **MOTIVATING EMPLOYEES:** Employees are motivated for improving their performances by budgetary control.



CH: 4. FRAME WORK





CH: 4. FRAME WORK

ESSENTIALS OF BUDGETARY CONTROL:

There are certain steps which are necessary for the successful implementation budgetary control system.

These are as follows:

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



CH: 4. FRAME WORK

1. ORGANIZATION FOR BUDGETARY CONTROL:

The proper organization is essential for the successful preparation, maintenance and administration of budgets. A Budgetary Committee is formed, which comprises the departmental heads of various departments. All the functional heads are entrusted with the responsibility of ensuring proper implementation of their respective departmental budgets.

The Chief Executive is the overall in-charge of the budgetary system. He constitutes a budget committee for preparing realistic budgets. A budget officer is the convener of the budget committee who co-ordinates the budgets of different departments. The managers of different departments are made responsible for their departmental budgets.



CH: 4. FRAME WORK

2. BUDGET CENTERS:

A budget centre is that part of the organization for which the budget is prepared. A budget centre may be a department, section of a department or any other part of the department. The establishment of budget centres is essential for covering all parts of the organization. The budget centres are also necessary for cost control purposes. The appraisal performance of different parts of the organization becomes easy when different centres are established.

3. BUDGET MANUAL:

A budget manual is a document which spells out the duties and also the responsibilities of various executives concerned with the budgets. It specifies the relations amongst various functionaries.



CH: 4. FRAME WORK

4. BUDGET OFFICER:

The Chief Executive, who is at the top of the organization, appoints some person as Budget Officer. The budget officer is empowered to scrutinize the budgets prepared by different functional heads and to make changes in them if the situations so demand. The actual performance of different departments is communicated to the Budget Officer. He determines the deviations in the budgets and the actual performance and takes necessary steps to rectify the deficiencies if any.



CH: 4. FRAME WORK

5. BUDGET COMMITTEE:

In small-scale concerns, the accountant is made responsible for preparation and implementation of budgets. In large-scale concerns, a committee known as Budget Committee is formed. The heads of all the important departments are made members of this committee. The Committee is responsible for preparation and execution of budgets. The members of this committee put up the case of their respective departments and help the committee to take collective decisions if necessary. The Budget Officer acts as a convener of this committee.



CH: 4. FRAME WORK

6. BUDGET PERIOD:

A budget period is the length of time for which a budget is prepared and employed. The budget period depends upon a number of factors. It may be different for different industries or even it may be different in the same industry or business.

The budget period depends upon the following considerations:

- ❖ The type of budget i.e., sales budget, production budget, raw materials purchase budget, capital expenditure budget. A capital expenditure budget may be for a longer period i.e. 3 to 5 years purchase, sale budgets may be for one year.
- ❖ The nature of demand for the products.
- ❖ The timings for the availability of the finances.
- ❖ The economic situation of the country.



CH: 4. FRAME WORK

7. DETERMINATION OF KEY FACTOR:

The budgets are prepared for all functional areas. These budgets are inter-dependent and inter-related. A proper co-ordination among different budgets is necessary for making the budgetary control a success. The constraints on some budgets may have an effect on other budgets too. A factor which influences all other budgets is known as Key Factor or Principal Factor.

There may be a limitation on the quantity of goods a concern may sell. In this case, sales will be a key factor and all other budgets will be prepared by keeping in view the amount of goods the concern will be able to sell. The raw material supply may be limited, so production, sales and cash budgets will be decided according to raw materials budget. Similarly, plant capacity may be a key factor if the supply of other factors is easily available.

CH: 5.
KEY FACTOR





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A key factor (limiting factor, principal budget factor, or governing factor) is the most important factor in the context of budgetary control which limits or governs the whole process of preparation of budgets.

The examples of key factor, which can be one or even more than one in catering establishments, are indicated below:

- ❖ **SALES VOLUME:** This key factor may limit the volume of sales and makes further expansion of sales because of the restricted demand in the market or limited efforts for sales promotion.
- ❖ **SEATING CAPACITY:** This is the most potent limiting factor operating in restaurants and similar catering establishments



CH: 5. KEY FACTOR

- ❖ **MANAGEMENT POLICY:** This might be a key factor because of deficiency of capable managers or limited funds at the disposal of executives.
- ❖ **MATERIALS:** This may be the limiting factor on account of inadequate availability of supply.
- ❖ **LABOR:** This may be the key factor because there might be a dearth of workers in general or in certain grades. It is, therefore, necessary to consider what possible key factors may influence the business operation before preparing the budgets.

CH: 6.
TYPES OF BUDGET





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- ❖ **SALES BUDGET** – an estimate of future sales, often broken down into both units and currency. It is used to create company sales goals.
- ❖ **PRODUCTION BUDGET** – an estimate of the number of units that must be manufactured to meet the sales goals. The production budget also estimates the various costs involved with manufacturing those units, including labour and material. Created by product-oriented companies.
- ❖ **CAPITAL BUDGET** – used to determine whether an organization's long-term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing.



CH: 6. TYPES OF BUDGET

- ❖ **MARKETING BUDGET** – an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.
- ❖ **PROJECT BUDGET** – a prediction of the costs associated with a particular company project. These costs include labour, materials, and other related expenses. The project budget is often broken down into specific tasks, with task budgets assigned to each. A cost estimate is used to establish a project budget.
- ❖ **REVENUE BUDGET** – consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.



CH: 6. TYPES OF BUDGET

- ❖ **CASH FLOW/CASH BUDGET** – a prediction of future cash receipts and expenditures for a particular time period. It usually covers a period in the short-term future. The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.
- ❖ **EXPENDITURE BUDGET** – includes spending data items.

CH: 7.
ADVANTAGES &
DISADVANTAGES





CH: 7. ADVANTAGES & DISADVANTAGES

(A) ADVANTAGES OF BUDGETARY CONTROL

The budgetary control system help in fixing the goals for the organization as the whole and concerted efforts are made for its achievements. It enables 'economies in the enterprise.

Some of the advantages of budgetary control are:

1. MAXIMIZATION OF PROFITS:

The budgetary control aims at the maximization of profits of the enterprise. To achieve this aim, a proper planning and coordination of different functions is undertaken. There is a proper control over various capital and revenue expenditures. The resources are put to the best possible use.



CH: 7. ADVANTAGES & DISADVANTAGES

2. CO-ORDINATION:

The working of different departments and sectors is properly coordinated. The budgets of different departments have a bearing on one another. The coordination of various executives and subordinates is necessary for achieving budgeted targets.

3. SPECIFIC AIMS:

The plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal, of the organization. Every department is given a target to be achieved. The efforts are directed towards achieving some specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims.



CH: 7. ADVANTAGES & DISADVANTAGES

4. ECONOMY:

The planning of expenditure will be systematic and there will be an economy in spending. The finances will be put to optimum use. The benefits derived from the concern will ultimately extend to industry and then to the national economy. The national resources will be used economically and wastage will be eliminated.

5. DETERMINING WEAKNESSES:

The deviations in budgeted and actual performance will enable the determination of weak spots. Efforts are concentrated on those aspects where performance is less than the stipulated.



CH: 7. ADVANTAGES & DISADVANTAGES

6. CONSCIOUSNESS:

It creates budget consciousness among the employees. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted.

7. REDUCES COSTS:

In the present day, competitive world budgetary control has a significant role to play. Every businessman tries to reduce the cost of production for increasing sales. He tries to have those combinations of products where profitability is more.

8. INTRODUCTION OF INCENTIVE SCHEMES:

The budgetary control system also enables the introduction of incentive schemes of remuneration. The comparison of budgeted and actual performance will enable the use of such schemes.



CH: 7. ADVANTAGES & DISADVANTAGES

(B) LIMITATIONS OF BUDGETARY CONTROL

Despite of many good points of budgetary control there are some limitations of this system.

Some of the limitations are discussed as follows:

1. UNCERTAIN FUTURE:

The budgets are prepared for the future period. Despite best estimates made for the future, the predictions may not always come true. The future is always uncertain and the situation which is presumed to prevail in future may change. The change in future conditions upsets the budgets which have to be prepared on the basis of certain assumptions. The future uncertainties reduce the utility of budgetary control system.



CH: 7. ADVANTAGES & DISADVANTAGES

2. BUDGETARY REVISION REQUIRED:

Budgets are prepared on the assumptions that certain conditions will prevail. Because of future uncertainties, assumed conditions may not prevail necessitating the revision of budgetary targets. The frequent revision of targets will reduce the value of budgets and revisions involve huge expenditures too.

3. DISCOURAGE EFFICIENT PERSONS:

Under budgetary control system, the targets are given to every person in the organization. The common tendency of people is to achieve the targets only. There may be some efficient persons who can exceed the targets but they will also feel contented by reaching the targets. So budgets may serve as constraints on managerial initiatives.



CH: 7. ADVANTAGES & DISADVANTAGES

4. PROBLEM OF CO-ORDINATION:

The success of budgetary control depends upon the coordination among different departments. The performance of one department affects the results of other departments. To overcome the problem of co-ordination a Budgetary Officer is needed. Every concern cannot afford to appoint a Budgetary Officer. The lack of coordination among different departments results in poor performance.

5. CONFLICT AMONG DIFFERENT DEPARTMENTS:

Budgetary control may lead to conflicts among functional departments. Every departmental head worries for his department goals without thinking of business goal. Every department tries to get the maximum allocation of funds and this raises a conflict among different departments.



CH: 7. ADVANTAGES & DISADVANTAGES

6. DEPENDS UPON SUPPORT OF TOP MANAGEMENT:

Budgetary control system depends upon the support of top management. The management should be enthusiastic about the success of this system and should give full support for it. If at any time there is a lack of support from top management then this system will collapse.



Thank
you.