



EVALUATING THE EFFECTIVENESS OF BUDGETARY CONTROL SYSTEMS IN ENHANCING FINANCIAL PERFORMANCE WITH REFERENCE TO HDFC

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ABSTRACT

Budgetary control is a vital financial planning and management tool used by organizations to plan, monitor, and control income and expenditure within a specific period. This study examines the role of budgetary control in achieving organizational efficiency, cost reduction, and effective resource allocation. By comparing actual performance with budgeted figures, management can identify variances, analyze the causes, and take corrective actions to improve overall performance.

The research highlights various types of budgets such as operational, capital, and flexible budgets, and discusses techniques like variance analysis, responsibility accounting, and zero-based budgeting. The study also explores how budgetary control contributes to strategic planning, performance evaluation, and decision-making in both public and private sector organizations.

The findings indicate that effective budgetary control not only improves financial discipline but also supports goal alignment and transparency across departments. It concludes that budgetary control is a critical component of organizational success, especially in dynamic business environments where efficiency and accountability are essential.

I. INTRODUCTION:

"The establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision".

A budget is a quantitative expression of a plan of action relating to the forthcoming budget period. It represents a written operational plan of management for the budget period." A plan expressed in money. It is prepared and approved prior to the budget period and may show income, expenditure, and the capital to be employed, may be drawn up showing incremental effects on former budgeted or actual figures, or be compiled by zero based budgeting". Budget and Budgetary control. The terms budget and budgetary control are often used interchangeable to refer to a system of managerial control. Budgetary control implies the use of a comprehensive system of budgeting to aid management in carrying out its functions like planning, co-ordination and control.

BUDGET:

According to Institute of Chartered Management Accountants (ICMA) England "A plan qualified in monetary term prepared and approved prior to a defined period of time usually showing planned income to be generated and or to be incurred during that period and the capital to be employed to attain a given objective".

Budgetary control methods

a) Budget:

A formal statement of the financial resources set aside for carrying out specific activities in a given period of time.

It helps to co-ordinate the activities of the organization.

An example would be an advertising budget or sales force budget.

b) Budgetary control:

- A control technique whereby actual results are compared with budgets.
- Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets.

Budgetary control and responsibility centres;



These enable managers to monitor organizational functions.

A **responsibility centre** can be defined as any functional unit headed by a manager who is responsible for the activities of that unit.

There are four types of responsibility centres:

a) Revenue centres

Organizational units in which outputs are measured in monetary terms but are not directly compared to input costs.

b) Expense centres

Units where inputs are measured in monetary terms but outputs are not.

c) Profit centres

Where performance is measured by the difference between revenues (outputs) and expenditure (inputs). Inter-departmental sales are often made using "transfer prices".

d) Investment centres

Where outputs are compared with the assets employed in producing them, i.e. ROI.

Advantages of budgeting and budgetary control

There are a number of advantages to budgeting and budgetary control:

- Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organisation purpose and direction.

Promotes coordination and communication.

Clearly defines areas of responsibility. Requires managers of budget centres to be made responsible for the achievement of budget targets for the operations under their personal control.

Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is provided by comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.

- Enables remedial action to be taken as variances emerge.

- Motivates employees by participating in the setting of budgets.

- Improves the allocation of scarce resources.

- Economises management time by using the management by exception principle.

NEED OF THE STUDY

1). To know about the budget and budgetary control of a “**The Housing Development Finance Corporation Limited (HDFC).**”.

2). To know about the status of a company by different financial Budgetary policies.

3). To know about the present scenario of Thermal companies Investment estimation that are existed in the market.

4). To know about the present impact of budgetary control on the financial position of the company.

5). To know about the fast performance to based on future estimation of the budgetary control of the techniques.

SCOPE OF THE STUDY

The scope of the study limited to collecting the data published in the reports of the company and opinions of the employees of the organization with reference to the objective stated above and theoretical framework of the data. With a view to suggest solutions to various problems relating to budget and budgetary control.

OBJECTIVE OF THE STUDY

- To understand the concept and importance of budgetary control in an organization.
- To analyze the role of budgetary control in effective financial planning.
- To evaluate the effectiveness of budgetary control in controlling costs and expenses.
- To study the impact of budgetary control on organizational performance.
- To identify the various techniques and methods used in budget preparation.
- To examine the relationship between budgeting and managerial decision-making.
- To assess how budgetary control helps in achieving organizational goals.
- To identify the challenges and limitations of budgetary control.
- To analyze the role of budgetary control in improving operational efficiency.



- To provide suggestions for enhancing the effectiveness of the budgetary control system.

II. METHODOLOGY OF THE STUDY

Research is the systematic investigation of fact that seeks to establish relationship between two types.

Primary data:

- Officers of accounts sections.
- Executives and staff of financial and accounts department.
- Meeting with concerned people.
- Personal observation.

Secondary data:

- Annual reports of **The Housing Development Finance Corporation Limited (HDFC)**. Financial management text books.
- Printed Materials.
- Journals and magazines
- News papers.

LIMITATIONS

1. Budgets are based on estimates and forecasts, which may be inaccurate.
2. Budgetary control lacks flexibility and may create rigidity in operations.
3. Preparation and implementation of budgets are time-consuming.
4. It involves significant administrative costs.
5. Employees may resist budgetary controls due to perceived restrictions.
6. Changing business conditions can make budgets obsolete.
7. Coordination among different departments can be difficult.
8. Budgets focus mainly on quantitative factors and may ignore qualitative aspects.
9. Managers may manipulate data to achieve budget targets.
10. Success depends on the support and commitment of top management.
11. Unrealistic budget targets can demotivate employees.
12. Budgetary control is only a management tool and cannot replace managerial judgment.

13. Frequent revisions may be required in a dynamic business environment.

14. External factors such as inflation, government policies, and market fluctuations can affect budget effectiveness.

15. Overemphasis on budget targets may hinder innovation and creativity.

III. LITERATURE REVIEW

INTRODUCTION TO BUDGET AND BUDGETARY CONTROL

Meaning:

Budgetary control is the process of determining various actual results with budgeted figures for the enterprise for the future period and standards set then comparing the budgeted figures with the actual performance for calculating variances, if any. First of all, budgets are prepared and then actual results are recorded.

The comparison of budgeted and actual figures will enable the management to find out discrepancies and take remedial measures at a proper time. The budgetary control is a continuous process which helps in planning and co-ordination. It provides a method of control too. A budget is a means and budgetary control is the end-result.

Definitions:

“According to Brown and Howard, “Budgetary control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon results to achieve maximum profitability.” Weldon characterizes budgetary control as planning in advance of the various functions of a business so that the business as a whole is controlled.

J. Batty defines it as, “A system which uses budgets as a means of planning and controlling all aspects of producing and/or selling commodities and services. Welsch relates budgetary control with day-to-day control process.” According to him, “Budgetary control involves the use of budget and budgetary reports, throughout the period to co-ordinate, evaluate and control day-to-day operations in accordance with the goals specified by the budget.”

Objectives of Budgetary Control:



Budgetary control is essential for policy planning and control. It also acts as an instrument of co-ordination.

Essentials of Budgetary Control:

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

These are as follows:

1. Organisation for Budgetary Control
2. Budget Centres
3. Budget Mammal
4. Budget Officer
5. Budget Committee
6. Budget Period
7. Determination of Key Factor.

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 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.

2. Budget Centres:

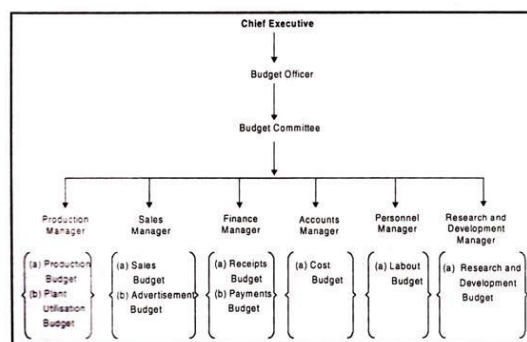
A budget centre is that part of the organization for which the budget is prepared. A budget centre may be a department, section of a department or any other part of the department. The establishment of budget centres is essential for covering all parts of the organization. The budget centres are also 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.

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. He works as a coordinator among different departments and monitors the relevant information. He also informs the top management about the performance of different departments. The budget officer will be able to carry out his work fully well only if he is conversant with the working of all the departments.



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 convener of this committee.

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:

- (a) 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.
- (b) The nature of demand for the products.
- (c) The timings for the availability of the finances.
- (d) The economic situation of the country.
- (e) The length of trade cycles.

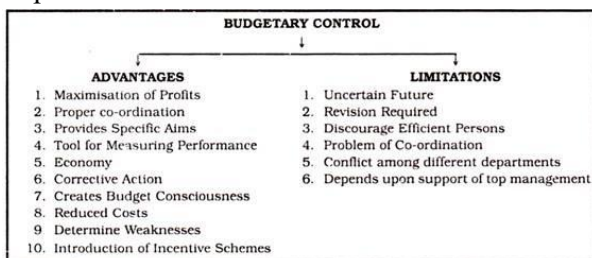
All the above-mentioned factors are taken into account while fixing period of budgets

7. Determination of Key Factor:

The budgets are prepared for all functional areas. These budgets are interdependent 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.

The key factor may not necessarily remain the same. The raw materials supply may be limited at one time but it may be easily available at another time. The sales may be increased by adding more sales staff, etc. Similarly, other factors may also improve at different times. The key factor also highlights the limitations of the enterprise. This will enable the management to improve the working of those departments where scope for improvement exists.



Cost of production Budget:

After determining the volume of output the cost of procuring the output must be obtained by preparing a cost of production budget. This budget is an estimate of cost of output planned for a budget period and may be classified into material cost budget, labor cost budget and overhead budget because cost of production includes material, labor and overheads.

Materials Budget:

In drawing up the production budget, one of the first requirements to be considered is material. As we know, materials may be direct or indirect. The materials budget deals with the requirements and procurement of direct materials. Indirect materials are dealt with under the works overhead budget. The budget should be related to the production budget and the period of the budget should be of short duration because this budget has an important bearing on the cash budget

Purchase Budget:

Purchase Budget is mainly dependent on production budget and material requirement budget. This budget provides information about the materials to be acquired from the market during the budget period.

Purchase budget should be prepared by the purchase manger by getting relevant information about capital items, tools, general supplies and direct materials required during the budget period from other related departments. Like other budgets, the purchase budget has to be approved by the budget committee. After approval it becomes the responsibility of the purchase officer to see that purchases are made as per the purchase budget. Sometimes additional purchases which are not covered by the purchase budget are made under the following circumstances.

If there is increase in production not anticipated while preparing the purchase budget and purchase of larger quantities of materials becomes necessary.

If accumulation of stock becomes necessary to avoid shortage of materials.

If overstocking is desired to take advantage of lower prices and there is fear that price will increase in near future.



The purchase manager should get additional sanctions from the higher authorities for making the additional purchases not covered by the purchase budget.

Direct Labor Budget:

This budget gives an estimate of the requirements of direct labor essential to meet the production target. This budget may be classified into labor Requirements budget and recruitment budget. The labor recruitment budget is developed on the basis of requirement of the production budget given and detailed information regarding the different classes of labor e.g., fitters, welders, turner, millers, and grinders and drillers etc., required for each department, their scales of pay and hours to be spent. This budget is prepared with a view too enable the personnel department to carry out programmes of training and transfer and to find out sources of labour needed so that every effort may be made to remove difficulties arising in production the available workers in each department, the expected changes in the labour force during the budget period due to the labour turnover. This budget gives information about the personnel specification for the jobs for which workers are to be recruited, the degree of skill and experience required and the rates of pay. Where standard costing system is applied, the labor cost budget is developed on the basis of standard labor cost per unit multiplied by the quantity of anticipated production determined in the production budget. If standard costing system is not being followed in the organization, the information of labour cost may be obtained from past records or estimated cost.

Sometimes another budget known as Manpower budget is prepared. This budget gives the requirements of direct and indirect labour necessary to meet the programme set out in the sales, manufacturing, maintenance, research and development and capital expenditure budgets. The labor terms are expressed of rupee value, number of labour hours, number and grade of workers etc. this budget makes provision for shift and overtime work and for the effective training for new workers on labour cost.

Manufacturing Overheads Budget:

This budget gives an estimate of the works overhead expenses to be incurred in a budget period to achieve the production target. The budget includes the cost of indirect material, indirect labour and indirect works expenses. The budget may be classified into fixed cost, variable cost and semi-variable cost. It can be broken into departmental overhead budget to facilitate control. In preparing the budget, fixed works overhead can be estimated on the basis of past information after taking into consideration the expected changes which may occur during the budget period. Variable expenses are estimated on the basis of the budgeted output because these expenses are bound to change with the change in output.

The Cost Accountant prepares this budget on the basis of figures available in the manufacturing overhead ledger or the head of the workshop may be asked to give estimates for the manufacturing expenses. A good method is to combine the estimates of the Cost Accountant and the shop executive.

Administrative Expenses Budget:

This budget covers the expenses incurred in framing policies, directing the organization and controlling the business operations. In other words, the budget provides an estimate of the expenses of the central office and of management salaries. The budget can be prepared with the help of past experience and anticipated changes. Budget may be

prepared for each administration department so that responsibility for increasing such expenses. This budget covers the expenses incurred in framing policies, directing the organization and controlling the business operations. In other words, the budget provides an executive. Much difficulty is not experienced in developing such budget as most of the administration expenses are of a fixed nature. Although fixed expenses remain constant and are not related to sale volume in the short run, they are dependent upon sales in the long run. With a small change in output, they do not change. However, if there is persistent fall in output, administration expenses will have to be reduced by discharging the services of some members of the staff and taking other economy measures. On the other



hand, with persistent increase in output or business activity, administration expenses will increase but they may lag behind business activity.

Budgeted Income Statement:

A budgeted income statement summarizes all the individual budgets i.e., sales budget, cost of goods sold budget, selling budget, and administrative sales budget. This budget determines income before taxes. If the tax rate is available net income after taxes can also be computed.

Selling and Distribution Costs Budget:

This budget is the forecast of the cost selling and distribution for budget period and is clearly related to the sale budget. All expenses related to selling and distribution of the various products as indicated in the sales budget are included in it. These expenses are based on the volume of sales set in the sales budget and budget and budgets are prepared for each item of selling and distribution overhead. Long term expenses.

As advertisement are spread over more than one period. Selling and distribution overheads

are divided into fixed and variable category with reference to volume of sales. Separate budgets are prepared for variable and fixed items of selling and distribution overheads. Certain items of selling and distribution costs as cost of transport department

are included in the departmental production cost budget from control point of view rather than including in selling and distribution costs budget.

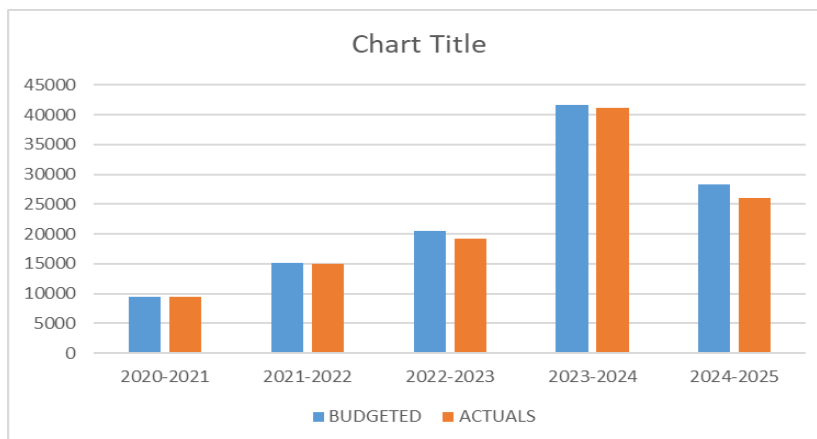
Capital Expenditure Budget:

The capital expenditure budget gives an estimate of the amount of capital that may be needed for acquiring the assets required for fulfilling production requirements a specified in the production budget. The budget is prepared after taking into consideration in the available productive capacities, probable reallocation of the existing assets such as plant and equipment budget, building budget etc. The capital expenditure budget is an important budget proving for acquisition of assets, necessitated by the following factors:

IV. DATA ANALYSIS AND INTERPRETATION

Interested Expanded

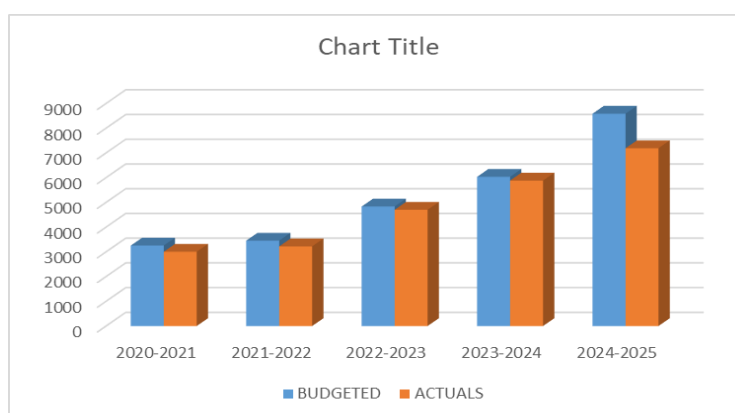
YEAR	BUDGETED	ACTUALS
2020-2021	9501.34	9385.08
2021-2022	15154.94	14989.58
2022-2023	20436.37	19253.75
2023-2024	41583.55	41135.53
2024-2025	28327.77	26074.24



By observing the above graph the material consumption is fluctuating from 2020-2025. So the company needs effective budget technique to get targeted actual.

PROVISIONS AND CONTINGENCES

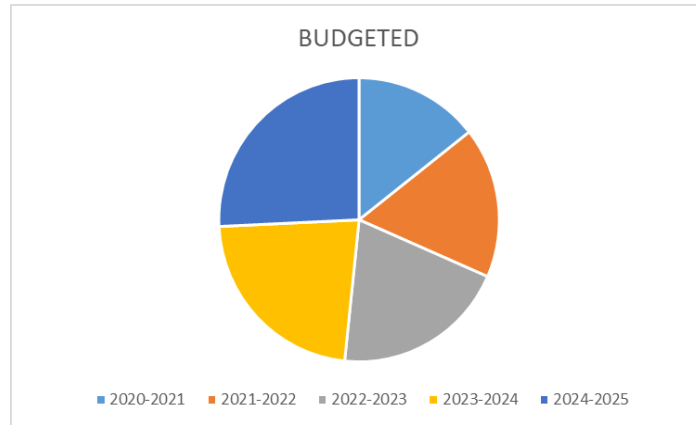
YEAR	BUDGETED	ACTUALS
2020-2021	3254.69	3004.88
2021-2022	3452.23	3221.46
2022-2023	4832.39	4701.34
2023-2024	6032.39	5881.70
2024-2025	8586.39	7188.56



By observing the above graph the consumable stores is fluctuating from 2020-2025. The value is decreased from 3004.88 in 2020 to 7188.56 in 2025 so the company needs effective budget techniques to get targeted actual.

EMPLOYEE REMUNERATION & BENEFITS

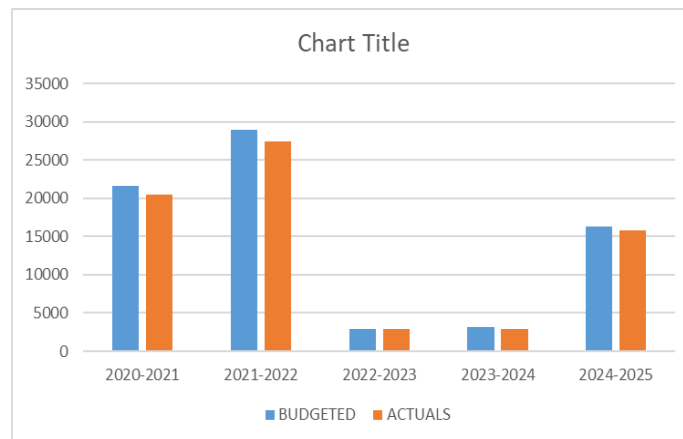
YEAR	BUDGETED	ACTUALS
2020-2021	2974.21	2836.04
2021-2022	3548.45	3399.91
2022-2023	4154.54	3965.38
2023-2024	4673.92	4178.98
2024-2025	5323.39	4750.96



By observing the above graph the employee remuneration and benefits are fluctuating from 2021 to 2025. There is an increase in the values from 2836.08 in 2021 to 4750.96 in 2025. So the company should follow the same technique and also improve to get targeted actual.

ADMINISTRATIVE & OPERATION EXPENSES

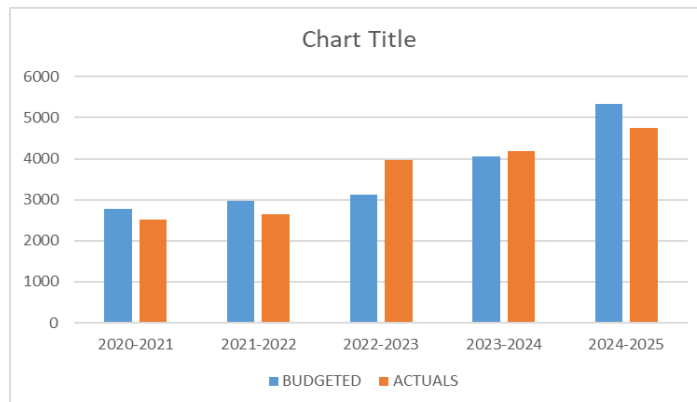
YEAR	BUDGETED	ACTUALS
2020-2021	21579.64	20435.32
2021-2022	28974.21	27452.68
2022-2023	2965.65	2854.51
2023-2024	3136.32	2939.92
2024-2025	16363.74	15768.85



By observing the above graph the administrative and operation expenses are fluctuating from 2021 to 2025. There is a decrease in the values from 20435.32 in 2021 to 15768.85 in 2025 so the company needs effective budget techniques to get targeted actual.

BANKING EXPENSES

YEAR	BUDGETED	ACTUALS
2020-2021	2785.64	2510.82
2021-2022	2967.12	2647.25
2022-2023	3125.84	3965.38
2023-2024	4054.85	4178.98
2024-2025	5323.39	4750.96



By observing the above graph the Banking expenses are fluctuating from 2021-2025 there is a increase in the values from 2510.82 in 2021 to 4750.96 in 2025. So the company should follow the same technique and also improve to get targeted actual.

V. FINDINGS

1. The budget and budgetary control of **HDFC**. Was found to be very effective when considered all categories of items.
2. In spite of having techniques many techniques of budget system, the company is not following any of the system to control budget.
3. In the 2021-2025 the total budgets value was high. Where was in the next two years it has come down drastically.
4. In all the five years budget expenditure was of high consumption a value.
5. Material consumed which is one of the inputs for the production.
6. It is also found that the reasons for maintaining huge stock of Banking expenses in 2020-2021 is due to high production of manufacturing expenses as well as the sales is also high in the year of 2021-2025 compared to other year.

VI. RECOMMENDATIONS AND SUGGESTIONS

1. It is recommended to the company that every item to be considered when categorizing the items into budgets.
2. As company is not using any budget techniques we can suggest the company to follow budget techniques for better and effective budget and budgetary control.
3. Pre audit of all expenditure proposals before issue of order and to check whether the expenditure is legitimate, approved by

appropriate authority and availability of funds for the above items.

4. The budget estimations should be made that they will reach with the actual for every year with very less variation.
5. In **HDFC** revenue expenditure and revenue receipts are not interdependent on each other.
6. The revenue expenditure will be spent based on the production target irrespective of the revenue receipts.
7. In this proves the effective financial performance of budget department in the organization

VII. CONCLUSIONS

Since, all the production units in **HDFC**. Will run perpetually throughout the year, there will be minimum variations in the revenue expenditure budget estimates and actual. As the expenditure will be incurred more or less to the estimations made by the organization.

In concern with overhead expenses, it will also be with minimum variations between budget estimates and actual. Since the production process will be consistent. Any change in the items of expenditure, will lead to the review in the budget estimates by the accounts and finance department. It is also suggested to the company that budget techniques will be very useful to control and manage cost effectively.



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