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*Research Paper*

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

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**ABSTRACT**

Budgetary control is a system in which income and spending are compared with a company's budget to make sure the plans are being followed. It allows companies to adjust their spending as necessary to make a profit. Every company has a budget, and at times, that budget needs to be revised to account for spending and an increase or decrease in income. In essence, budgetary control compares actual results with budgets. If discrepancies are found, key players within a company have two choices. They can either control the spending of the company or revise the original budgets. Budgetary control helps to coordinate and organize a company's financial activities. The study of budgetary control is very helpful for management of companies for control of their expenditure through a powerful instrument that the name is budget. In fact it will provide a yardstick for measuring and evaluating the performance of individuals and their departments.

**KEYWORDS**: Budget, Budgetary Control, Cost, Financial Planning, Financial Performance, Performance Measurement, Monitoring, Evaluating, Motivation, Productivity.

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## I. INTRODUCTION

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.

Budgetary control refers to how well managers utilize budgets to monitor and control costs and operations in a given accounting period. In other words, budgetary control is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as it is needed.

You can think of a budget like a report card in school. It shows how well you performed in that subject during the school year. The budget process does the same thing. Management can set goals and evaluate the progress. There are typically four steps in any budgetary control process that managers follow. First, a budget needs to be created. To put it simply, a company performance budget is really just a set of financial goals that management wants to achieve. These could be sales or spending goals. Second, after the budget is created, management needs to compare, analyze, and interpret the actual performance results with the budgeted goals. Management typically uses a budget report for this comparison. Third, after the comparison has been made, managers need to improve the underperforming operations and continue to strengthen the favorable ones. The budget report easily allow managers to focus on unfavorable operations because all areas that meet the budget are marked with an for favorable variance while the poorly performing areas are marked with a for unfavorable variance. The fourth and final step usually occurs at the end of an accounting period. After management has a chance to look over the entire last period, they can start making plans for the next year. For example, they will most likely review the original budget that was created and why certain goals were set. Then they will compare the actual with the budgeted performance over the entire period. Lastly, management will focus on how they tried to correct the problem operations and develop a plan to fix them in the next period.

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 coordination. It provides a method of control too. A budget is a means and budgetary control is the end-result

## OBJECTIVE OF THE STUDY

1. To provide the material frame work of budget and budgetary control
2. To describe the profit of the organization as a backdrop for undertaking a study of budgetary control system.
3. To analyze the budgetary system in practice in **HDFC** with particular reference to their objectives and phases of organizational and re-appropriation.
4. In addition to the analysis of the conventional budgetary system in practice in **The Housing Development Finance Corporation Limited (HDFC)**. The study aims at evaluation and modification to the current budgetary system with reference to the various types of budgets. The scope in the formulation of performance budget is also studied.
5. To study the budgeted estimates and accruals of the revenue expenditure and revenue receipts.
6. To study the variations of the accruals from the budgeted estimates.
7. To study the working of the financial department at **The Housing Development Finance Corporation Limited (HDFC)**.

## 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. The study is purely based on the information provided by the company and the data is collected from the reports, annual reports, and magazines of the company.
2. Estimates are used as basis for budget plan and estimates are based mostly on available facts and best managerial judgment

3. Budgetary control cannot reduce the managerial function to a formula. It is only a managerial.
4. Tool which increase effectiveness of managerial control.
5. The use of budget may be to restricted use of resources. Budgets an often taken as limits.
6. Efforts may therefore not be made to exceed the performance beyond the budgeted targets.
7. Frequent changes may be called for in budgets due to first changing industrial climate.
8. In order that a system may be successful, adequate budgets education should be imparted at least through the formative period. Sufficient training programs should be arranged to make employees give positive response to budgetary activities.
9. To study is restricted to **The Housing Development Finance Corporation Limited (HDFC)**.
10. To study is restricted to limited period.

## III. 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.

**TYPES OF FUNCTIONAL BUDGETS**

**(1) Sales Budget**: These should be analyzed as between products, periods and areas. By reference to the trends disclosed by the past figures and with the aid of information supplied by the sales department forecast of anticipated sales for the forthcoming period can be made. The sales forecast or sales budget is the basic core budget on which other budget depend. As such rational efforts should be made to develop a proper sales budget which can be reasonably accomplished.

**(2) Production Budget:-** Production budget is prepared after the preparation of sales budget, to the determine quality of goods which should be produced to meet the budget sales .It is expressed in physical terms, such as (a)Union of output,(b)Labor of house and (c)

Material requirement.

(3) **Raw Material Budget:** This budget reveals the quantities of materials which are needed to make the budget production. It also shows the anticipated cost of materials to be purchased, terms of credit from suppliers ,the time taken to procure raw materials etc.

(4) **Direct Labor Budget:** The direct labor budget tells about the estimates of direct labor requirements essential for carrying out the budgeted output. The direct labor cost is estimated as a results of the evaluation of standard hours worked or the quantity of work done by the individual worker in terms of certain average wage rate. This wage rate may be different for each department.

## IV. RESEARCH METHODOLOGY

Research In common parlance which refers to search for Knowledge. Research methodology is a way to systematic the research problem. It may be as science of studying how research problem. It may be various steps that are generally adopted by researcher in studying his research problem along with logic behind them. it is necessary for the researcher to know not only the research method/techniques but also the methodology.

**Descriptive research:**

Descriptive research is used to describe characteristics of a population or phenomenon being studied. The major purpose of descriptive research is description of the state of affairs as it exists at present. The method of research utilized in descriptive research is survey method of all kinds.

**Sampling:**

Sampling may be defined as the selection of an aggregate or totality on the basis of which judgement or inference about the aggregate or totality is made.

**Collection of data:**

After the research plan has been chalked out, now the data collection process which involves collecting both primary and secondary data. A for this study also two types of data also collected that is,

1. Primary data.
2. Secondary data

**Primary data:**

Primary data are those which are collected a fresh and for the first time and thus happen to be original in character.

**Secondary data:**

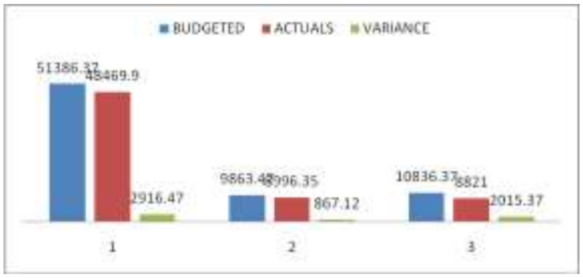
The secondary data which have already been collected by someone else and which have already been passed through the statistical process. Source of secondary data collection are books, journals, magazines, news papers, internet e.t.c.

## V. DATA ANALYSIS AND INTERPRETATION

### CALCULATION OF REVENUE RECEIPTS BUDGET FOR THE YEAR 2023-2024

**(Cr……)**

| S.No | DESCRIPTION | BUDGETED | ACTUALS | VARIANCE |
|---|---|---|---|---|
| 1 | Interested Earned | 51386.37 | 48469.9 | 2916.47 |
| 2 | Other Income | 9863.47 | 8996.35 | 867.12 |
| 3 | Balance in bank(Inventory) | | | 2015.37 |
| | | 10836.37 | 8821 | |
| | Total | 72086.2 | 66287.3 | 5798.96 |



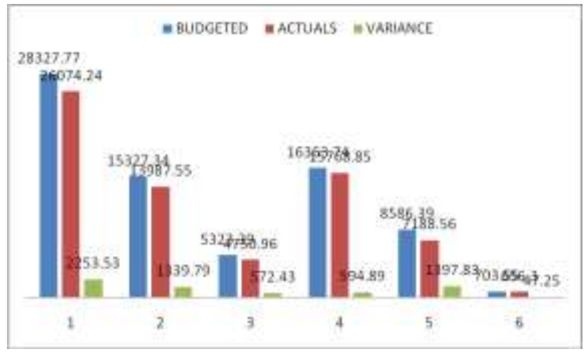

In this year it can be seen that every item actual are bellow the budget estimate which reprehensions a positives indications of savings, the actual are beyond budget estimates due to revision in pay scales. Which can be ignored, because in total budget estimates are more than the actual

In revenue receipts, the actual are below the budgeted. Except in increase in inventory value is negative. The budget estimates with a good variation percentage.

**CALCULATION OF REVENUE EXPENDITURE BUDGET FOR THE YEAR 2023-2024**

**(Cr……)**

| S. No. | DESCRIPTION | BUDGETED | ACTUALS | VARIANCE |
|---|---|---|---|---|
| 1 | Interested Expanded | 28327.77 | 26074.24 | 2253.53 |
| | Operating Expenses | | | |
| 2 | Employee Remuneration & Benefits | 15327.34 | 13987.55 | 1339.79 |
| 3 | Administrative &Operation Expenses | 5323.39 | 4750.96 | 527.43 |
| | Provisions & Contingencies | | | |
| | Depreciation | | | |
| 4 | | 16363.74 | 15768.85 | 594.89 |
| 5 | | 8586.39 | 7188.56 | 1397.83 |
| | | 703.55 | 656.3 | 47.25 |
| 6 | | | | |
| | Total | 746332.18 | 68426.46 | 6205.72 |




## VI. 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 2019-2024 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 2018-2019 is due to high production of manufacturing expenses as well as the sales is also high in the year of 2019-2024 compared to other year.

## VII. SUGGESSIONS

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

## VIII. 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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