SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
M.A.POL.SC. 401
SUBJECT NAME:ADMINISTRATIVE THEORY
UNIT-V
TOPIC NAME:CONCEPT OF BUDGET

WHAT IS BUDGET

- 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. Companies, governments, families and other organizations use it to express strategic plans of activities or events in measurable terms.

- A budget is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them. It may include a budget surplus, providing money for use at a future time, or a deficit in which expenses exceed income.

DEFINITION:

- According to Article 112 of the Indian Constitution, the Union Budget of a year, also referred to as the annual financial statement, is a statement of the estimated receipts and expenditure of the government for that particular year.

DESCRIPTION:

- Union Budget keeps the account of the government's finances for the fiscal year that runs from 1st April to 31st March. Union Budget is classified into Revenue Budget and Capital Budget.

FEATURES OF BUDGET

- It is an estimate of the economic activities of an entity which related to a specified future period.
- It must be written and approved by the appropriate authority.
- It should be modified or corrected, whenever, there is a change in circumstances.
- It plays the role of a business barometer that helps in measuring the performance of the business by comparing actual and budgeted results.
- It is prepared on the basis of past experiences and trends in the business.
- It is a business practice, which is used to forecast the operating activities and financial position of the business.

MAIN ELEMENTS OF THE BUDGET :

(i) It is a statement of estimates of government receipts and expenditure.

(ii) Budget estimates pertain to a fixed period, generally a year.

(iii) Expenditure and sources of finance are planned in accordance with the objectives of the government.

(Iv) It requires to be approved (passed) by Parliament or Assembly or some other authority before its implementation.

OBJECTIVES OF A GOVERNMENT BUDGET:

It should be kept in mind that rapid and balanced economic growth with equality and social justice has been the general objective of all our policies and plans. General objectives of a government budget are as under:

(i) Economic growth

(ii) Reduction of poverty and unemployment

(iii)Reduction of inequalities/Redistribution of incumbent

(iv)Reallocation of resources

(v) Price stability/Economic stability

(vi)Financing and management of public enterprises

CLASSIFICATION OF BUDGET

- Based on time

Long-term Budget:

- The budget designed by the management for a long-term, i.e. three to ten years is called as long-term budget.

Short-term Budget:

- As the name suggests, the budget which is prepared for a period ranging from 1 to 2 years, is called short-term budget.

Based on Capacity

- Fixed Budget: The budget created for a fixed activity level. The budget remains constant regardless of the level of activity, is called as fixed budget.
- Flexible Budget: The budget which changes with the change in the level of activity is a flexible budget. It identifies the fixed cost, semi-variable cost and variable cost, to show the expected results at different volumes.

IMPACT OF THE BUDGET:

A budget impacts the society at three levels-

(i) It promotes aggregate fiscal discipline through controlled expenditure, given the quantum of revenues,

(ii) Resources of the country are allocated on the basis of social priorities,

(iii) It contains effective and efficient programmes for delivery of goods and services to achieve its targets and goals.

TYPES OF BUDGET:

(a) Balanced Budget

(b) Surplus Budget

(c) Deficit Budget

DEVELOPMENT OF BUDGETING:

- Line-Item Budgeting:
- performance of budgeting
- Planning—Programming—Budgeting
- Management by Objectives
- Zero-Base Budgeting

BASED ON SCOPE

- Functional Budget: The budget which is concerned with the business functions is called as functional budget. It can be further classified as:
- Sales Budget: Sales budget is used to determine the quantity of anticipated sales and the expected selling price per unit.
- Production Budget: It is prepared to indicate the production for the specified period and is expressed in the units of outputs produced.
- Materials Budget: The budget prepared to show the quantities of direct material and raw material required to manufacture the finished product.
- Purchase Budget: Purchase budget is designed to estimate the quantity and value of different items to be bought at different points of time, considering the production schedule and inventory required.
- Cash Budget: The budget highlights the cash needed by the business in a specified period, taking into account all the receipts and payments of the business.

Master Budget:

Once all the functional budgets are created, then the financial officer will prepare a master budget. It is an integrated budget that reflects the estimated profit and loss and financial position using Budgeted Profit & Loss Account and Budgeted Balance Sheet of the concern.

BASED ON RECEIPTS AND EXPENDITURE

- Capital Budget: The budget takes into account the estimated capital receipts and expenditure of the business for a specified period.
- Revenue Budget: The budget that covers all the revenue receipts and expenses of a particular financial year is a revenue budget.

UNDERSTANDING BUDGETING TERMS AND TIPS

- A budget is a microeconomic concept that shows the trade off made when one good is exchanged for another. In terms of the bottom line or the end result of this trade off a surplus budget means profits are anticipated, a balanced budget means revenues are expected to equal expenses, and a deficit budget means expenses will exceed revenues.