

EVALUATING BUDGETING AND BUDGETARY CONTROL PROCESS IN COLLEGES

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ABSTRACT

Higher education, especially, education in Arts, Science and Commerce colleges for traditional courses has been a core area covering majority of population in higher education. Similarly, budgeting and budgetary control processes in colleges capture attention. The various sources of income and expenditure, the allocation of expenses and controlling the excess expenses catches the attention of Government authorities, funding agencies, administrators as well as academicians in higher education. For financial activities, of course, budget is inevitable, which is defined as 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 and to control the activities of the organization. Budgeting in the colleges consists of the planning of academic, financial, and integrating activities. Academic planning is a complex phenomenon due to a variety of changes that have affected the availability of funds for education. Some of these changes such as demographic shifts, social pressures, and technological advances are external factors that affect the academic institutions. These factors, therefore, make budgetary planning increasingly important in the present times. Similarly, budgetary control is the system of creating budgets, monitoring progress and taking appropriate actions to achieve expected performance. The present paper aims at studying and exploring budgetary control system and the tools available there under, to counter the problems faced in the planning activities in Arts, Commerce and Science colleges and to suggest the possible measures to overcome and improve the said system. Further, the paper attempts to analyse and interpret the use of the budgetary control system as has been practised by different Arts, Commerce and Science colleges. With the help of a questionnaire, interviews, interactions and the data collected through the sample colleges, an attempt is made to investigate budget, budgeting and budgetary control in Arts, Science and Commerce colleges in the jurisdiction of University of Mumbai.

Keywords: Budget, Budgetary Control System, Higher Education

Higher education is a process of teaching, learning and research in college/s and university or universities. Regarding higher education, Ronald Barnett articulates, “The term higher education includes college and university teaching learning towards which students’ progress to attain higher educational qualification. Higher education imparts in-depth knowledge in different walks of life, subjects and domains. It is about knowing more and more about less and less. It develops the student’s ability to question and seek truth and makes him/her competent to critique on contemporary issues. It broadens the intellectual power of the

individual within a narrow specialization, but also gives him/her a wider perspective of the world around.”¹

The number of students enrolled for higher education in India exhibits a tremendous increase year after year, which signals that higher education is one of the largest systems of its kind in the world in the recent past. However, the system has been struggling with several problems like funds crunch, equity, reorientation of programmes, ethics, value associated to education, teaching-learning process, assessment and accreditation of institutions, academic standards of the students, quality of research, innovativeness and creativity in the curricula and the syllabi. These factors are connected with the income and expenditure of the college/institution for which budget and budgetary control system are certainly imperative. Budget and Budgetary control system, therefore, play pivotal role in every educational institution. Thus, budgetary control system motivates as well as monitors all the activities and personnel to perform all the financial and curricular activities in a patternised and systematic way. Budgetary control and responsibility accounting are the prime parts in the educational institutions. The use of budgets in controlling operations is known as budgetary control. Such control takes place by means of budget reports that compare actual results with the planned objectives. Generally, budgetary control consists of preparing periodic budget reports that compare actual results with planned objectives by analyzing the differences to determine their causes and also by taking appropriate corrective measures. Further, it modifies future plans. The present paper attempts to evaluate the role of budget and budgetary control system in colleges.

Budget and budgetary control system are the controlling tools of an institution's operations through establishment of standards and targets regarding income and expenditure, and a continuous monitoring and adjustment of performance against them. Prabhu Ramyah in one of his articles defines, “Budgetary control is a means of achieving the financial control of an institution, whereby the actual results for a defined period of time. Which compared with the budgeted results any differences (variances) being noted, and some corrective action taken to bring the actual activities back into line with budgeted ones if such variances need to be deal with.”² Correspondingly, budget and budgetary control systems in a college are a must. A good budgeting system requires good institutional system with lines of authority and responsibility clearly specified. There should be co-ordination among different functions as well as participation of responsible Heads of the Departments/In-charge of the co-curricular activities in the decision making process. In any educational institution management acceptance, research and analysis, and sound institutional structure are the essential domains of budgetary control system.

Taking into consideration the strive for excellence in higher education in universities and colleges by educationists, scholars, the U. G. C. and the Ministry of H. R. D., the present paper attempts to assess certain randomly selected sample colleges affiliated to University of Mumbai for their variant steps practised in budgetary control system for the academic excellence, selecting sample colleges ranging from rural to urban and from ru-urban to cosmopolitan geographical and demographical locations. As a result, there are variances in budgetary control system being executed by different colleges. In addition to a number of interviews and interactions with college administrative representatives like principals and registrars, data is collected from them through a questionnaire for the present venture.

The major aims of the present paper can broadly be as following:

1. To assess and understand the Budgetary Control System and techniques practised by Arts, Commerce and Science colleges affiliated to University of Mumbai.
2. To analyze and evaluate the Budgetary Control System and techniques followed by Arts, Commerce and Science colleges affiliated to University of Mumbai.

Data is collected from various colleges affiliated to University of Mumbai. Hence, it is essential to have a brief profile of the university and its arena. University of Mumbai is one of the oldest and premier Universities in India which was established in 1857 and it is one amongst the first three Universities in India alongwith the University of Calcutta and the University of Madras. The educational jurisdiction of Mumbai University envelops the educational blocks of Mumbai City, Mumbai Suburban, Thane, Raigad, Ratnagiri, Sindhudurg and Navi Mumbai. Hence, the jurisdiction of University of Mumbai is comprises of seven educational blocks which estimates to 667 colleges. There are 356 colleges, which have full-fledged streams of Arts, Commerce & Science in isolation or in combination. These colleges are considered as a consolidated population or a universe or the target. By taking the variables in consideration, 10% of the total colleges i.e. 37 in numbers are selected as sample colleges. In order to execute the research, a structured questionnaire is prepared to collect the primary data relevant for the study. For the same, two respondents are taken for interaction, namely, the Principal of the college, who looks after overall activities and the Registrar / Office Superintendent / Accountant of the college, who looks after the financial maintenance. Similarly, data is collected and analyzed with the help of statistical technique like Mean, Mode and Median method.

To maintain the books of accounts every college follows certain accounting system. Accounting system is one of the basic requirements of budget and budgetary control system. In an organisation wherever there is financial transaction, it is mandatory that the office bearers must maintain their financial records by following certain accounting system. In order to meet the day to day requirements, the colleges need to have cash basis transactions for which they follow cash basis or accrual basis accounting. According to *Dictionary of Accounting Terms*, Cash basis accounting is a “Method of recognizing revenue and expenses when cash is received or disbursed rather than when earned or incurred.”³

For the said study, one also needs to see the definition of accrual-basis accounting as it is being practised by some of the colleges. Therefore, *Dictionary of Accounting Terms* defines accrual basis accounting as, “Recognition of revenue when earned and expenses when incurred. They are recorded at the end of an accounting period even though cash has not been received or paid. The alternative is cash basis accounting.”⁴ Both these accounting systems are practised by colleges.

The data provided in the following table traces the practices of accounting system followed by the respondent colleges:

Variable:	Response:	
Type of accounting system practised in the college.	No.	%
Cash Basis Accounting System	35	94.60
Mercantile/Accrual Basis Accounting System	01	02.70
Hybrid (Mixed Accounting System)	01	02.70
Total	37	100.00

1. From the above table it is observed that there are 94.60% of the respondent colleges, which follow cash basis of accounting system.
2. There is only 02.70% of the respondent colleges, which follow accrual basis of accounting system.
3. There is only 02.70% of the respondent colleges, which follow hybrid (mixed) basis of accounting system.

Therefore, on the basis of this data, one can conclude that majority of colleges prefer cash basis accounting system. Very few colleges prefer accrual basis accounting system whereas some prefer hybrid accounting system in their day-to-day transactions.

The colleges maintain their accounts on the nature of expenses incurred. These expenses vary further on the basis of regular fixed expenses and variable expenses. The regular expenses are the expenses like the salaries of the staff, maintenance expenses and the non-regular expenses like purchase of equipments, construction of buildings, and purchase of land. Hence, one needs to see the definition of the various types' expenses incurred by the colleges. Fixed Expenses as Dr Jake, Mitchell and Alan Price (2003) in their much celebrated book, *Economics: Principles in Action* define, "In economics, fixed costs are business expenses that are not dependent on the level of goods or services produced by the business. They tend to be time-related, such as salaries or rents being paid per month, and are often referred to as overhead costs. This is in contrast to variable costs, which are volume-related (and are paid per quantity produced)." ⁶

Similarly, one also needs to trace variable expenses as it, too, is practised by colleges. Garrison, Noreen and Brewer in their book, *Managerial Accounting and Costs Concepts*, trace, "Variable costs are expenses that change in proportion to the activity of a business. Variable cost is the sum of marginal costs over all units produced. It can also be considered normal costs. Fixed costs and variable costs make up the two components of total cost. Direct Costs, however, are costs that can easily be associated with a particular cost object." ⁷ Both fixed and variable expenses are the inseparable parts of accounting system which invariably are followed by the colleges.

The following data showcases the variances in the expenses by the respondent colleges.

Variables:	Response			
	Yes		No	
	No.	%	No.	%
Do you keep separate financial record for fixed and variable expenses?	36	97.30	01	02.70
Does your college keep separate financial record for recurring and non-recurring expenses?	37	100	NIL	-
Does your college maintain separate costing record?	02	05.41	35	94.59

1. 97.30% respondent colleges maintain separate financial record for fixed and variable expenses whereas 02.70% respondent colleges do not maintain their financial records separately.

2. It is also seen that all the respondent colleges keep separate financial records for recurring and non-recurring expenses.
3. It is traced 05.41% respondent colleges maintain separate costing record whereas 94.59% respondent colleges do not maintain their costing records separately.

It is observed that these colleges maintain their financial records according to the nature of expenditure. However, they do not maintain the cost record separately though it is necessary to do so.

Budget and its type on the basis of nature: It is observed that every college makes its provisional statement of receipts and expenditure for the academic year in advance. It is budget, which functions as a parameter to measure, control and monitor the financial activities of an institute. The colleges taken for the present study prepare and follow budget for their financial activities throughout a financial and academic year. Therefore, one needs to see the definition of budget. *Dictionary of Accounting Terms* defines budget as, “A Budget is a quantitative plan of activities and programs expressed in terms of assets, liabilities, revenues, and expenses. Budget participants will be involved in carrying out the plan, or in other quantitative terms such as units of product or service. The budget expresses the organizational goals in terms of specific financial and operating objectives. Advantages of budget preparation are planning, communicating company-wide goals to subunits, fostering cooperation between departments, maintaining control by evaluating actual figures to budget figures, and revealing the interrelationship of one function to another.”⁸

The information given below in the tabulated form highlights the practice of preparing budget by the colleges under study:

Variable:	Response		Fixed		Flexible	
	Yes	%	No.	%	No.	%
Does your college prepare budget, every year?	37	100.00	04	10.81	33	89.19
	No					
	Nil	Nil	NA	NA	NA	NA
Total	37	100.00	04	10.81	17	89.19

1. All respondent colleges prepare budget every year.
2. As compared to the total respondent colleges 10.81% colleges have fixed budget system, whereas 89.19% colleges have flexible budget system.

Though preparation of budget is mandatory for colleges in order to maintain and report their accounting, it is seen that majority of colleges prefer flexible budget. Of course, this is a symptom of healthy practice of accommodating changes in accounting that take place in the academic as well as accounting year.

Budget committee: Budget Committee is an essential committee in every college as it plans, forecasts, monitors and evaluates the receipts and expenditures of the colleges. Generally, it is constituted by the principal of the college, representatives of management, teaching staff and non-teaching staff. To understand it in an explicit way, one needs to trace its definition. *Investopedia* traces the definition of Budget Committee as, “a group of people that creates and maintains fiscal responsibility for an entity or organization. In a company, this committee usually consists of the top management and the chief finance officer. Budget

committees typically review and approve departmental budgets that are submitted by the various department heads.”⁹ For the smooth functioning of the economic transactions in the financial year and the years to follow, the college constitutes a budget committee as per the guidelines provided by the University Grants Commission, which certainly helps them in carrying out their financial transactions well.

The data given in the following table amplifies the status- formal/informal- of budget committee in the respondent colleges:

Variable:	Response		Formal		Informal	
	Yes	%	No.	%	No.	%
Does your college have a Budget Committee?	31	83.78	16	51.62	15	48.38
	No					
	06	16.22	NA	NA	NA	NA
Total	37	100.00	16	43.24	15	40.54

1. There are 83.78% out of 37 respondent colleges, which have Budget Committee. Out of these, 51.62% colleges have it in the formal and 48.38% colleges have it in an informal manner.
2. As compared to total respondent colleges, 43.24% colleges have Budget Committee in the formal and 40.54% colleges have in an informal manner.
3. There are 16.22% out of 37 respondent colleges, which do not have either formal or an informal Budget Committee.

The present study, therefore, highlights that majority of colleges have formal budget committee which help them in forecasting, planning allocating and monitoring the fiscal activities. Further, it is also seen that some colleges have Local Management Committee functioning as an informal budget committee, which is likely lead towards mismanagement and manipulation of fiscal recourses.

Participatory Budget: Personnel involvement in the process of preparing budget creates democratic environment in which people have an impact on decisions and actions that affect their jobs. Employee involvement is not the goal nor is it a tool, as practised in many educational institutions. Rather, employee involvement is a management and leadership philosophy about how people are enabled to contribute to continuous improvement and the ongoing success of their educational institutions.

The data given in the following table, exhibits the involvement of the personnel in preparing budget in the respondent colleges.

Variable:	Response		Reviewed		Not Reviewed	
	Yes	%	No.	%	No.	%
Do you invite budget proposals & suggestions from heads/in-charge of the departments & in-charge/chairman of the activity or program and review the proposal/s of different departments?	37	100.00	37	100.00	Nil	Nil
	No					
	Nil	Nil	NA	NA	NA	NA
Total	37	100.00	37	100.00	Nil	Nil

All respondent colleges invite budget proposals and suggestions from their heads of various departments, and in-charge of curricular and co-curricular activities and also review the budget proposals and suggestions given by them on regular basis. From the study, it is evident that all the respondent colleges have personnel participation in the process of preparing the budget of the college. Sometimes, when it is not possible to have direct meeting and consensus, requirements are invited from every head of the department or the in-charge of an activity so as to incorporate the same in preparing the budget of the institute for the financial year.

Budgetary Control System in Colleges: Budgetary control is a control technique whereby actual results are compared with budgets. Any differences or variances are made with the responsibility of key individuals who can either exercise control action or revise the original budgets. 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. In case, a remedial action to be taken as variance emerges. It motivates employees by participating in the setting of budgets. Similarly, it improves the allocation of scarce resources. Budgetary control is defined by the Institute of Cost and Management Accountants (CIMA) as, "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." ¹¹

The data stated in the following table focuses the present position of application of Budgetary Control System in the sample colleges:

Variable:	Response	
	No.	%
Do you have an effective Budgetary Control System in your college?		
Yes	32	86.49
No	05	13.51
Total	37	100.00

There are 86.49% of the respondent colleges which have effective Budgetary Control System in their colleges. However, there are 13.51% of the respondent colleges which do not have an effective Budgetary Control System. This projects that majority of colleges under the present research have effective Budgetary Control System. The rest 13.51% colleges also have the Budgetary Control System but it is not much effective.

CONCLUSION AND SUGGESTIONS

The present study amplifies that though more than 90% colleges follow cash-basis accounting system, there is no homogeneity in the accounting system, application of Budget and Budgetary Control System, Account Reporting, framing and formation of Budget Committee, preparation of Budget, preparation of supplementary budget, analysis of variations, if any, and its actual implementation in the colleges under study. The personal interactions and interviews with the authorities concerned in this domain, enables the researcher to arrive at certain suggestions that can be incorporated in uplifting and enhancing the budget and budgetary control system that is being practised in Arts, Science and Commerce colleges affiliated to University of Mumbai. Following are some of the suggestions that can be recommended for studies:

- In Budget and Budgetary Control System, instead of practising the rigidities of cash-basis accounting system in degree colleges, it would be beneficial if the colleges observe mercantile basis accounting which will cater them the facility of adjustment of the cash-flow and expenditure of both the academic as well as accounting years.
- The colleges registered under the Indian Societies Registration Act, 1860 prepare their financial statement as per the provisions of the Maharashtra Co-operative Societies Act, 1960 as well as according to Rule-65 of the Maharashtra Co-operative Society Rule, 65 i.e. in 'N' form. Colleges registered under Section 25 of the Indian Companies Act, 1956; maintain their financial statements as per Schedule VI. There should be a unique method of preparing financial statements which will be acceptable to the Director of Higher Education, the University authorities and the management of the said educational institution. Further, it should be accepted at international level by implementing Accounting Standards (IAS) for preparation of financial statements.
- Taking into account the technological advancements in the twenty first century, it is suggested that all the colleges should go for computerized accounting system which will enable them to get the data as and when required on just a single click.
- Budget Committee should be formal, headed by the principal of the college with the representatives of Management, member of teaching staff and non-teaching staff, except the member/s representing the Local Managing Committee. It will also be a participatory budgeting system, which will certainly facilitate every member and also every level of hierarchy to have a voice in preparing the budget.
- It is suggested that the Budget Committee and the Principal of every college concerned should monitor the budgeted revenue and expenditure and the actual expenditure with specific intervals, as it will help them to control excess expenses on certain activity/department.
- Budgeting and Budgetary Control System certainly guarantee the output from the college as it envelops all the activities and programmes in the college. Further, it creates an overall awareness with every individual concerned which contributes to the development of the college as an aware employee is the best asset of the institute. Therefore, Budget and Budgetary Control System though seem inadvertent, they are essential for the colleges to keep everything at right place and pace.

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