

MANAGEMENT

PRINCIPLES AND APPLICATIONS

UNIT-2

PART-II

C. Classification on the Basis of Flexibility

(i) **Fixed Budget:** These budgets are prepared before the beginning of the financial year. These are prepared for a given level of activity. Fixed budget is a budget which is designed to remain unchanged irrespective of the level of activity actually attained.

(ii) **Flexible Budget:** A flexible budget consists of a series of budgets for different levels of activity. It is prepared after taking into consideration unforeseen changes in the conditions of the business. These budgets are useful for business whose level of activity changes from time to time.

Advantages of Budgets

The following are the main advantages of budgeting:

(i) **Compelled Planning:** The preparation of a budget forces the formation of various types of plans. Budget formulates managerial targets.

(ii) **Index for Judging Performance:** The budget acts as an index for judging performance through standards. It lets every employee know what is expected of him. Thus, budgeted performance acts as a better index than pass performance.

(iii) **Better Co-ordination and Communication:** Budgets force executives to think and also think as a group. They broaden individual thinking by helping to remove personal biases. This results in greater co-ordination and better communication.

(iv) Proper Basis for Control: A budget not only provides a future plan of action but also sets standards for various activities. It can thus be used to measure performance, detect deficiencies and initiate corrective action where necessary.

(v) Time Bound: A budget has a definite time-bound programme. It may be designed for a month, a quarter or at the most, a year. Thus, it allows performance to be measured in the short run.

(vi) Proper Motivation: Budgeting lays down attainable targets and also prescribes the means to achieve them. Once the employees know what they have to achieve and how, they will make all possible efforts to accomplish the desired work.

(vii) Specific Targets: A budget aims at specific, well-defined targets which are often expressed quantitatively. Essay-type description of targets is generally avoided. Thus, the extent of success in implementing a budget can easily be measured.

Limitations of Budgets

Budgeting also suffers from certain shortcomings, important among which are as follows:

(i) Danger in Over-Budgeting: There is always danger in over budgeting. By spelling out minor expenses in detail, it deprives managers of needed freedom to manage their departments.

(ii) Lack of Co-ordination: This limitation arises by allowing budgetary goals to supersede enterprise goals.

(iii) Hampers Initiative: Often managers look upon budgets as an end in themselves. For them nothing seems to exist beyond and besides the budgets. With great sanctity attached to budgets, no scope is left for rational and pragmatic approach to decision-making.

(iv) Inflexibility: Perhaps inflexibility is the greatest limitation of budgets. Some sort of flexibility is generally attached with the budgeted figures. This makes the budget quite rigid.

(v) Expensive: High cost of its installation is another limiting factor. It is an expensive luxury which only large profitable concerns can afford.

(vi) **Not a Substitute for Management:** Budget is only a tool of management. It is not a substitute of management. Budgets are likely to fall flat in absence of proper supervision and administration.

3. Projects: A project is usually considered merely a part of a general programme, a part which can be planned and fulfilled as a distinct project in itself. Though connected with programme, the project can be handled itself as an independent unit. It is designed and executed as a distinct plan. A project is defined in terms of capital investment, specific objective, interdependence of tasks. For instance, installation of a computer may be designated as a project. is marked separate from the normal operations because of special significance Projects help to facilitate co-ordination and control by identifying an integrated work package.

A project is a complex cluster of relative activities with a distinct objective and a definite completion time period. Thus, a project plan is more specific like constructing a new plan, popularising a new product or building of a dam. The task of executing the project is put under the charge of a project manager. The project manager formulates plans, programmes and policies which are necessary to execute the project. He designs various budgets and authorises expenditure on various items. However, he draws personnel and specialised assistance from the functional departments of the organisation like finance, marketing engineering, etc.

A project must have the following three attributes:

- (i) It is a non-recurring plan.
- (ii) It has its own distinct objectives.
- (iii) It involves 'one-shot' activities.

(2) Standing or Repeated Use Plans

A standing plan is one which is designed to be used over and over again. Such plans are of permanent nature and are meant for repeated use. Standing planning is also called 'Routine planning'. Objectives, policies, procedures, rules strategies are examples of standing plans.