

BUDGETING
COMMERCE &
MANAGEMENT-
UGC-NET

DIWAKAR EDUCATION HUB ONLINE INSITUTE OF COMMERCE MANAGEMENT AND PAPER-1

**ONLINE BATCHES –
COMMERCE(08)
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PAPER-1**

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BUDGET

▣ DEFINITION:

Budget is an operational plan, for a definite period usually a year . Expressed in financial terms and based on the expected income and expenditure.



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▣ DEFINITION:

Budget is a concrete precise picture of the total operation of an enterprise in monetary terms.

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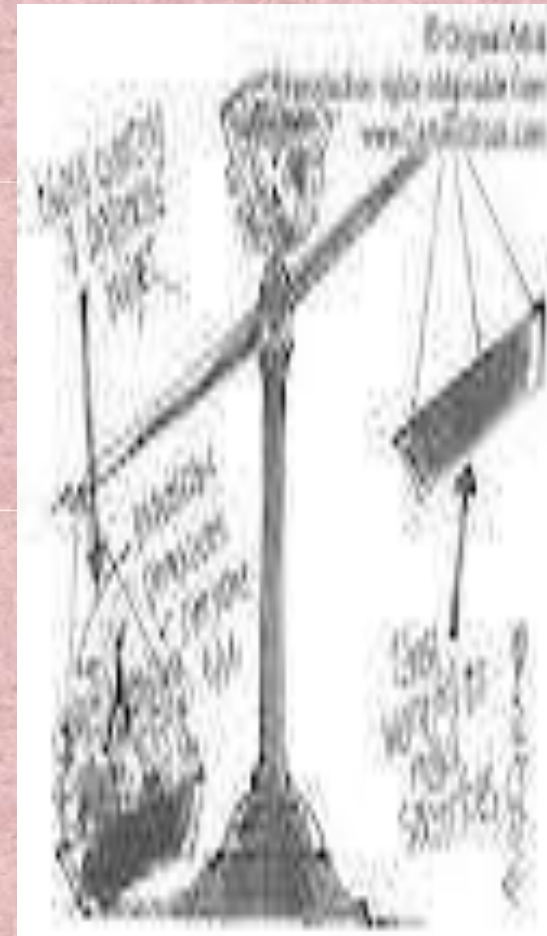


PURPOSES OF BUDGETING

- ▣ Mechanism for translating fiscal objectives into projected monthly spending pattern.
- ▣ Enhances fiscal planning and decision making.
- ▣ Clearly recognises controllable and uncontrollable cost areas.
- ▣ Offers a useful formate for communicating fiscal objectives.
- ▣ Allows feedback of utilization of budget.

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- ▣ Helps to identify problem areas and facilitates effective solution.
- ▣ Provides means for measuring and recording financial success with objectives of organization.



PREREQUISITES TO BUDGETING

1. ORGANIZATIONAL STRUCTURE:

- Need a sound organizational structure with clear line of authority and responsibility



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2. **NONMONETARY
STATISTICAL DATA:-**

- Such as number of admissions ,average length of stay, percentage of occupancy and number of patient's days
-used for planning and budgetary process.



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3. CHARTS OF ACCOUNTS :

-Designed to be consistent with the organizational plans.Revenues and expenses are reported by responsibilities areas, thus providing historical data that are valuable for planning and providing budgetary control for evaluation as performance can be compared to plans.



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4. **MANAGERIAL SUPPORT:**

-Essential for the budgetary programme .Budgeting is done at the departmental level, it must be valued by top administration.

Managers must be willing to devote their time and energy to the budgeting process.





CHARACTERISTICS OF BUDGETING

1. Should be flexible.
2. Should be synthesis of past ,present and future.
3. Should be product of joint venture and cooperation of executive/ department head at different level of management.



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4. Should be in the form of statistical standard laid down in the specific numerical terms.
5. Should have support of top management throughout the period of its planning and implementation.



IMPORTANCE OF BUDGETING

1. Needed for planning future course of action and control over all activities in the organization.
2. Facilitates coordinating operation of various departments and sectors.
3. Helps to weigh values and make decision when necessary.



PRINCIPLES OF BUDGET

1. Should provide sound financial management by focussing on requirement of the organisation
2. Should focus on the objectives and policies of the organization.
3. Should ensure the most effective use of financial and non financial resources.

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4. Programme activities should be planned in advance.
5. Requires consistent delegation for framing and executive budget.
6. Should include coordinating efforts of various departments establishing a frame of reference for managerial decision and evaluate managerial performance.

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7. Requires an adequate checks and balance against adoption of too high and too low estimates.
8. Must be appropriate to nature of business ,services and to the type of budget.
9. Prepared under the direction and supervision of administrator or financial officer.



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10. To be prepared and interpreted throughout the organization .
11. Requires review of performance of previous year and adequacy both quantitatively and qualitatively.
12. Provision should be made for flexibility.



TYPES OF BUDGET

1. OPERATING BUDGET(Revenues and Expenses):
 - Provides an overview of agency function by projecting the planned operation for upcoming year. Deals with salaries,medical-surgical supplies,office supplies, laundry services,books periodicals,recreation and contractual services.

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2. CAPITAL EXPENDITURE BUDGET:

- Related to long range planning. Includes physical changes (replacement and expansion of plant, major equipments and inventories). They are major investment and reduces flexibility in budgeting.

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3. **CASH BUDGET:**
Planned to make adequate funds available and to use extra funds profitably. Should not have too much cash on hand during budgetary period.



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4. LABOR OR PERSONNEL BUDGET:

- Estimate cost of direct labor necessary to meet agency objectives. Determine the recruitment, hiring, assignment, layoff, discharge of personnel. Nurse manager has to decide number of aids, orderlies required during a shift months and areas.



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5. **FLEXIBLE BUDGET:** Some costs are fixed ,others changes with volume of buisness. Some expenses are unpredictable and can be determined only after change has begun.Periodic reviews required to compensate for changes.



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6. **STRATEGIC PLANNING BUDGET:**
Long range budget for long range planning. Projected for 3-5 years. Programme budget is a part of this budget.



CLASSIFICATION OF BUDGET

1. **INCREMENTAL:**Based on estimated changes in present operation plus a percentage increase for inflation,all of which is added to previous year budget.
2. **OPEN ENDED** A financial plan in which each operating manager present a single cost estimate for what is considered optimal activity level.



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3. **FIXED CEILING BUDGET:** The uppermost spending limit is set by top executive before the unit and divisional manager develop budget proposal for the areas of responsibility.
4. **FLEXIBLE BUDGET:** Several financial plans each for different programme activity.



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- 5. ROLL OVER BUDGET:** Forecast programme, revenues and expenses for a period greater than a year, to accommodate programme larger than annual budget cycle.
- 6. PERFORMANCE BUDGET:** Allocates functions not divisions (direct nursing care, in service education, nursing research, quality improvement).

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- 7. PROGRAM BUDGET:** Where cost are computed for a total program(group total cost for each service program). Eg. MCH,FP,UIP.
- 8. ZERO BASE BUDGET :**Requires nurse manager to examine ,justify each cost of every program both old and new in every annual budget preparation.

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9. **SUNSET BUDGET:** Designed to “self destruct” within a prescribed time period to ensure the cessation of spend in by a predetermine date.
10. **SALES BUDGET:** Is starting in budget program, since sales are basic activities which gives shapes to other activities. Compiled in terms of quantity and value.

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11.PRODUCTION BUDGET: Aims at securing the economical manufacture of production and maximising the utilization of production facilities.

12.REVENUE AND EXPENSE BUDGET: Expressed in financial terms and take the nature of performa income statement for future.Shows the item of profits and loss.

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13. CASH BUDGET:
Prepared by way of projecting the possible cash receipts and payments over budget period.



BUDGETING PROCESS

- ▣ STEP 1: Establishment of operational goals and objectives and policies.
- ▣ STEP 2: Goals must be translated into quantifiable management objectives for organizational units. Departmental goals are made.



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STEP 3: Formal plan for budget preparation and review including assignment of responsibilities and timetable is prepared.

STEP 4: Departmental budget are revised and master budget is prepared.

STEP 5: Financial feasibility of master budget is tested and final document is approved and distributed to all parties involved.

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STEP 6: Every head of the office required to prepare budget estimate in respect of salaries of establishment,contingent expenditure and others.eg. Telephone,office expenses,rent of building etc.



ADVANTAGES OF BUDGETING

1. Fixes accountability, assignment of responsibility and authority.
2. Encourages managers to make careful analysis of operation.
3. Weakness is revealed, corrective measures taken.
4. Financial matters can be handled in orderly fashion. Activities are balanced.

DISADVANTAGES

1. Converts all aspects of organizational performance in monetary values. Only easy aspects can be considered and equally important facts such as organizational development may be ignored.
2. May become an end in itself instead of means to end. Budgetary goals may supercede agency goals.



RESEARCH STUDY BUDGET DESIGN & ANALYSIS

- ▣ To properly negotiate budgets for research studies it is important to assess protocol feasibility and identify the costs to conduct the study. A study should not be pursued if it does not cover the costs to conduct it, unless there are additional financial resources identified.

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- ▣ The first step to create a comprehensive budget is to develop an internal budget. Internal budgets are used for sites to identify all of their costs to conduct a study and can be used as a tool to negotiate the sponsor budget. It is critical to have a thorough understanding of the study documents to develop a comprehensive budget.

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- ▣ This entails reviewing the protocol, contract, consent, and case report forms to identify each procedure, visit, participant contact, supplies, and patient care costs that are needed to conduct the study. It is recommended to identify the work that is required per participant. All of the identified items should be listed in the internal budget.

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- ▣ Once all items are identified to conduct the study, a determination needs to be made if the service is considered Standard of Care (SOC) or Research Only. Standard of Care services are those that are typically performed in the participant population for the disease being studied and will be billed to the patient/insurance.

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- ▣ Research Services are those that are performed for research purposes only. Research services are NOT billed to the patient/insurance. See the Clinical Research Billing Guide for information regarding how to make this determination. Mark the SOC and Research determinations in the internal budget. The Research services will be the costs to conduct the study.

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- ▣ It is important to note that one size does not fit all when it comes to budgeting. There are many different types of studies and sponsors who all have different budgeting needs. There are, however, common core components to developing any study budget.

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- ▣ Core budget components include: administrative costs, travel, staff costs, supplies, equipment, patient care costs, etc. There may also be a need for cost sharing or subcontracts.



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Thank You!

