THE EFFECTIVENESS OF BUDGETING AND BUDGETARY CONTROL SYSTEM AS A MANAGEMENT CONTROL DEVICE

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ABSTRACT

A budget is not simply an estimate or a prediction but it is a management plan expressed in quantative values. A budgetary control is to provide a basis for monitoring the progress of the organisation in order to achieve the objectives.

This study was conducted to evaluate the effectiveness of budgeting and budgetary control as a device for management control. Data and information were collected from relevent journals and articles. One organisation has been selected as a model to collect primary information through interview.

There have been several findings of positive and negative views on budgeting and budgetary control system. However it was proved that recession increased the value of budgets and the importance of financial discipline. Management saw budget as a device for financial control and responsibility accounting.

Budget attitude survey indicate that budget tend to be positively received in the organisation but this will depend on how budgeting is being perceived by managers. Managers were supportive of participation in the budgeting process for the effective system of budgetary control. Budgeting is also a mean of communicating

CHAPTER 1

INTRODUCTION

Every organisation needs an accounting system. The system helps management to gather information and to communicate decisions in achieving the organisation's goals or objectives. An effective accounting system provides information for the following purposes:

1. For planning and controlling routine operation,
2. For long range planning and strategic decision making,
3. For the external users such as investors, government agencies and other users of financial statement.

Financial accounting involves providing information for the external users, while management accounting involves providing information for internal users, for example, the management for planning and control purposes.

It is important to observe that most organisations are very concerned about their financial obligations and commitments. Only authorised personnel are allowed to commit financial obligations on behalf of the