

## **BUDGETARY CONTROL TECUMESH**

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### **ABSTRACT**

There are two types of control, namely budgetary and financial. This chapter concentrates on budgetary control only. This is because financial control was covered in detail in chapters one and two. 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".

### **INTRODUCTION**

Budgetary control is a crucial aspect of financial management that plays a pivotal role in the success of any organization, including tecumseh. As a leading company an independent, global manufacturer of hermetically sealed compressors for commercial and residential refrigeration, as well as air conditioning and mobile cooling applications. Tecumseh recognizes the importance of effectively managing its finances to achieve its strategic objectives and maintain its competitive edge in the market.

Budgetary control refers to the process of planning, controlling, and monitoring financial resources to ensure that expenditures align with organizational goals and objectives. At tecumseh, budgetary control serves as a cornerstone of its financial management framework, enabling the company to allocate resources efficiently, track performance, and make informed decisions to drive business growth.

In this introduction, we will delve into the key components of budgetary control at tecumseh, highlighting its significance, objectives, and implementation strategies within the organization. By understanding how tecumseh leverages budgetary control to optimize its financial performance, we can gain valuable insights into its financial management practices and the factors contributing to its success in the industry.

### **NEED OF THE STUDY**



The day-to-day's cut throat competition in the world of business, trade and commerce is leading to many complexities which when is not predicted properly according to the fast growing changes that are taking place in the market situations may result in adverse progress and sometimes may leads to exit from the industry or domestic markets.

To avoid these kinds of threats endangering the survival prospects, there is a compulsion today to have a proper plan of action in predicting the prices, costs, funding the proposals, controlling the same and implementing the framed budgets and utilize the scarce resources avoiding maximum extent of wastages.

Budget shows the real need to know the swot-analysis which in turn is simply known as strengths, weaknesses, opportunities, and threats. Following these guidelines it is very simple to make proper budget allocations according to requirement and make timely decisions. Budgeting and budgetary control helps in this context of dynamism.

Preparation of budgets in various fields like purchases, production, salaries and wages, and sales process of the company on a monthly basis, quarterly and half-yearly basis gives effective control system in financial management and thus makes the management aware of the regular price changes.

#### **Scope of the study**

- The study is conducted with the available data from the annual reports, internal reports, and other available data from several interactions with the staff of tecumseh products india pvt. Ltd., and analysis was made accordingly.
- The data is secondary in nature as the records and statements, which shows their own limitations, and up to a certain extent it is even said to be priority while the collection of data regarding actual facts are collected from the concerned staff.
- The budgeting is done only for the next three years and it clearly explains the limitation regarding the duration of the study.
- All the budgets are prepared in the organization by the concerned departments and they share the same as and when they required for proper adjustments and necessary updates. Hence the data collected from them is regarded as fair and absolute. The intension behind preparation of budgets is to forecast the sales and expenses to be incurred in the near future and compare with actuals.

## RESEARCH METHODOLOGY

- Certain assumptions have been made in regard to the future sales of the company.
- The budgets have been prepared in the consultation with the various personals of the organization.
- The changes in inventory due to expected better management have been taken in the account while calculating the production and related budgets.
- The results of the budgets forecast have been analyzed to give suggestions for improvement of the performance of the organization.

This project titled “a study on budgeting and budgetary control at tecumseh products india pvt. Ltd.” Is a study conducted at tecumseh products india pvt. Limited, hyderabad. The purpose of the project is to study the budgetary system in a manufacturing company.

The project work consists of introduction to budgets and budgetary control with various advantages and disadvantages of the same. The study methodology adopted was both, interaction with both the concerned staff at tecumseh company and also through various manuals and journals published in-house.

The objectives of the study being primarily to understand the budgeting system in a manufacturing company (concern) and the advantages of the same. To assimilate the budgetary control system adopted at tecumseh, and to see the performance of the company over a period of three years and make suggestions wherever necessary.

The study takes into consideration the budgeted estimates, the revised estimates and actual figures for some of the important sources of budgetary variance like, sales, consumption of raw material, salaries and wages etc., the relevant figures are from the years 2006 onwards which have been taken for the analysis.

The analysis of the budget variations primarily gives an insight into whether there has been an over estimation or under-estimation of resources allocated, and the reasons for the variations are evaluated through consultations with the concerned managers at tecumseh.

Suggestions have been made as to, how the existing system can be improved to have a better control over the budgetary system in the organization.

the priority data collected from the different companies through enquiry.

**Secondary data:**

the secondary data collected from the different sites, brochures, news papers, company offer documents.

**LIMITATIONS OF THE STUDY**

- Estimates are used as basis for budget plan and estimates are based on available facts and best managerial judgment.
- Budgetary control cannot reduce the managerial function to a formula. It is only a managerial.
- Tool which increase effectiveness at managerial control.
- The use of budget may lead to restricted use of resources.
- Efforts may therefore not be made to exceed the performance beyond the budgeted targets.
- Frequent changes may be called for in budgets due to fast changing industrial climate.
- In order that a system may be successful, adequate budget education should be imparted at least through the formative period. Sufficient training programs should be arranged to make employees give position response to budgetary activities.
- The study is limited up to the date and information provided by tecumseh products india limited (tpil) and its annual reports.

**REVIEW OF LITERATURE**

**Concept of budgeting & budgetary control**

**Budget:**

“a budget is a financial and quantitative statement, prepared and approved prior to defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. It may include income, expenditure and the employment of capital.” In other words, a budget is a systematic plan for the utilization of manpower and material resources. In a business organization a budget represents an estimate of the future costs and revenues.

**Essential features of a budget:**

- It's a written plan of activities for the future period of time.
- It is expressed in quantitative form, physical of monetary units or both.



- It relates to the income and expenditure for individual functions of the business.
- It is prepared for a definite period of time, usually for one year.
- It relates to the future period for which the objectives or goals have already been laid down.
- It is prepared in advance and is derived from the long-term strategy of the organization.

### **Objectives of a budget**

- Budgets serve as a “blue print” of the desired plan of action.
- Budgets help in reduction of wastage and losses by revealing them in time for corrective action.
- Budgets serve as means of communication. The organization communicates the policies and targets to the managers in the organization who are responsible to carry out the plan.
- Budgets serve as the benchmark for controlling ongoing operations.
- Budgets help to coordinate, integrate and balance various operations to achieve set objectives of the organization.
- Budgets are a way of communicating to the departmental, sectional, and divisional heads their responsibilities and making them accountable to the same if any deviations from the actuals arise.
- Budgets facilitate centralized control with delegated authority and responsibility. A system of control can be exercised by having a plan against which the actual results can be progressively compared and corrective actions are taken whenever necessary.
- Budget brings out the efficiency and improvement in the working of the organization as all the details are clearly spelled out.
- Budgets compel advance planning. By having a formal budgeting procedure, management is forced to look to the future instead of living “hand to mouth” without any clear idea or purpose.

### **budgetary control**

Budgetary control is a system of controlling costs that includes the preparation of budgets, coordinating with the departments and establishing responsibilities, comparing actual performance with that of the budget and acting upon results to achieve maximum profitability. It's a very important activity to ensure that the actuals confirm to the plans set through the budgets. The meaning and purpose of setting of budgets will not be achieved without effective budgetary control system.

No system of planning can be successful without having an effective and efficient system of control. Budgeting is closely connected with control. The exercise of control in the organization with the help of budgets is known as budgetary control. The process of budgetary control includes

- Preparation of various budgets
- Continuous comparison of actual performance with the standard or the budgetary performance.
- Revision of budgets in the light of changed circumstances.

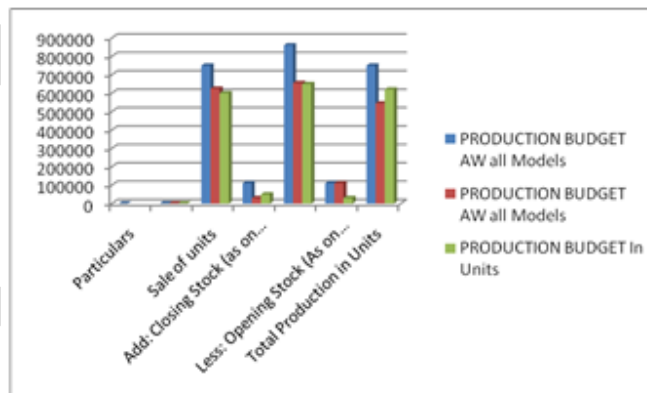
A system of budgetary system should not become rigid; there should be enough scope for flexibility to provide individual initiative and drive, budgetary control is an important device for making the organization more efficient on all fronts. It is an important tool for controlling and achieving the organizational objectives.

### DATA ANALYSIS & INTERPRETATION

#### Annual budgets

**PRODUCTION BUDGET:**

<b>PRODUCTION BUDGET</b>			
AW all Models	In Units		
Particulars	Year		
	2022	2023	2024
Sale of units	750000	625000	600000
Add: Closing Stock (as on 31st December)	110500	30000	50000
	860500	655000	650000
Less: Opening Stock (As on 1st January)	110500	110500	30000
<b>Total Production in Units</b>	<b>750000</b>	<b>544500</b>	<b>620000</b>



#### Interpretation

the production, by observation, to the chart above is self explanatory that the estimations or the budgeted figures of production in units has constantly decreased and increased in the year 2024. The slight change in the production of units is acceptable as it shows a favorable change.

The product cost figures are available in the following chart for the reference purpose only. While calculating percentage changes year 2022 is taken as base year: the percentage change in the year 2022 decreased to 72.6%. The percentage change in the year 2023 decreased to 82.67%, but slightly increased from the year 2024.

<b>PRODUCTION COST PER UNIT</b>			
AW (Domestic and Exports) all models			
Particulars	Year		
	2022	2023	2024
<b>AW 1800 Q</b>			
Actual Material Cost	2387	2419	2782
Add:			
Consumables	191	196	195
Rejection Cost	27	25	20
Power Cost	100	85	65
Wage Cost (Labour)	290	250	278
New Lines (Stomat. Talent, and Lamination)	30	-	-
Freight Inwards (1.19%)	29	29	22
Warranty	40	44	38
<b>PRODUCTION COST PER UNIT</b>	<b>3084</b>	<b>3036</b>	<b>3380</b>

#### ACTUAL PRODUCTION

<b>ACTUAL PRODUCTION</b>			
AW all Models			In Units
Particulars	Year		
	2022	2023	2024
Total Production in Units	411018	591823	218476
<b>Total Production in Units</b>	<b>411018</b>	<b>591823</b>	<b>218476</b>

#### CALCULATION OF PRODUCTION VARIANCE

##### (BUDGETED VS ACTUALS)

In Units				
Year	Budgeted	Actuals	Variance	Result
2022	750000	411018	-338987	Adverse
2023	544500	591823	46823	Favorable
2024	185000	218476	58476	Favorable
	<b>1949500</b>	<b>1718817</b>	<b>-233688</b>	

#### Interpretation

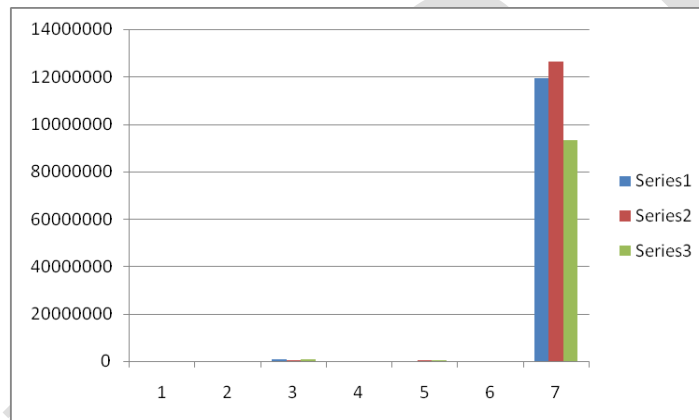
The variance in the year 2021 comparing to budget vs. Actuals is very unsatisfactory and the result is expressed as adverse. The reason behind is, the overestimation of the budgeted figures over actuals.

In the year 2023 & 2024, the variance is positive and it is expressed to be favorable performance.

The overall variance of the three years i.e., from 2023 to 2024 is negative. Hence, there is a curious requirement to review the budgets. Concentration of performance appraisal in production is at most desired.

**DIRECT LABOUR BUDGET**

DIRECT LABOUR BUDGET			
Particulars	Year		
	2022	2023	2024
Production in Units	750000	544500	600000
Labour hours per unit (in hrs)	3.93	1.93	2.24
Total Hours (in Hrs)	190600	280825	267300
Rate per hour (in Rs.)	78.19	56.32	43.56
<b>Total Direct Labour Amount</b>	<b>119193770</b>	<b>176531000</b>	<b>93199261</b>



**Interpretation**

From the above data direct labour budget for three years right from 2022 to 2023 are compared. The direct labour cost has increased in tune with decreased production. This shows there is a lot of expenditure incurred in the year 2023.

A gradual decrease has been found in the year 2024 comparing to the base year 2024.

The level of expenditure is controlled up to a maximum level by thorough revisions. While calculating percentage changes, 2022 is taken as base year.

The percentage change in the year 2023 increased to 106.19%, which is beyond the limit. This shows over expenditure. The percentage change in the year 2024 decreased to 78.19%, showing that the strict management control on this issue in this year.

**FINDINGS, SUGGESTIONS AND CONCLUSION**

**FINDINGS**





- The study at tecumseh products india pvt. Ltd. At hyderabad plant is defined to be the most technical and analytical study. The professionalism that encapsulates the various degrees of performances at every step of financial study is like a new game.
- The actual subject matter, naming the project work on **budgeting and budgetary control** in a manufacturing concern is the practical exposure drawn out from the efforts of management of tecumseh, hyderabad.
- The various budgets called financial budgets, operating budgets, and their performances are studied and interpreted according to the actual performance evidenced from past three years.
- The budgets are prepared on the basis of annual budgets and quarterly budgets. By studying annual budgets, it is well understood that the estimations, their revisions, are factualized according to the past performances, which are overestimated in the initial stages and got adjusted in their successive stages.
- Preparation of master budgets, fixed budgets, flexible budgets are desired to be prepared to have easy and fast access to the data required by the staff and line management.
- As the company incurred huge unexpected losses in the previous two years there is a lot of requirement to review its standards, estimations and follow accordingly

## SUGGESTIONS

- Financial interpretations for each and every budget are required to be clearly analyzed and frequent revisions for setting dynamic goals according to the changing market conditions may lead to the chasing of the actual target i.e., becoming the global leader in the markets which ever they choose to participate.
- Good review of mission, not from the point of theory, but required exact practical implementations. Preparation of complicated data always leads to many conflicts, requires lot of time and labour and this may delay decision making as well as the information costs.
- Collection of latest market information regarding the cost of raw materials, quality of raw materials, competitor prices, alternative suppliers, growth opportunities, the diversifying marketing expansion, upgradation of technology, observation of business cycles, smart production methods, swot analysis, concentration of skilled labour are some of the important pre-requisites.
- As the business of tecumseh depends basically on exports up to a larger extent, increasing global standards is a vital element that has to be practiced.
- Taking timely appropriate steps may reduce the strain of incurring further losses is assured.
- The effective six-sigma will be beneficial for the organization.



### CONCLUSION

- To conclude the study it is quiet clearly evident the budgetary control techniques are best tools that are available for the management of the organizations to track the financial expenditure of the companies.
- It was also proven that revisiting the budget from time to time is also necessary as there could be some unforeseen events happening that could cause an adverse effect of the budget plan that the organization had had for its business.
- Budgetary control techniques are the only ways to evaluate the way of organization’s utilization of the allocated budget across various departments.
- Although there are other few reasons that may cause over expenditure like labor related problems, general economic conditions and market conditions for the companies products. Budgetary control may not lead the managements to finding the solution but at least it helps to find out the actual cause of poor performance of the organization.

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