

# BUDGET

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# INTRODUCTION

- The word Budget is derived from the French word “Bougette” which means leather bag/wallet to carry out official papers.
- Every organization has a predetermined set of goals and objectives which are attainable only with the help of proper planning and execution of plans economically. The plans in the form of statements are called **Budget**.
- Every organization prepares budget for its functioning. Budget expresses the plan of hospital in health organization to provide optimum care at a reasonable cost in financial terms.
- The process of budgeting has gained importance in the recent years because of rising health care costs and the emphasis on cost containment.
- It is extremely important that budgeting be accomplished in such a way that it facilitates goal achievement.



# IMPORTANCE OF BUDGET

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- Budget is an essential management tool.
- Budget tells us how much money we need to carry out our activities.
- Budget offers a useful format for communicating fiscal objectives
- It helps us in controlling or spending.
- Budget monitors income and expenses.
- Budgeting keeps us on track for our financial goals.
- Budget helps to identify problem areas and facilitate effective solution.
- Budget provides means for measuring and recording financial success with the objectives of the organization.



# PURPOSE OF BUDGET

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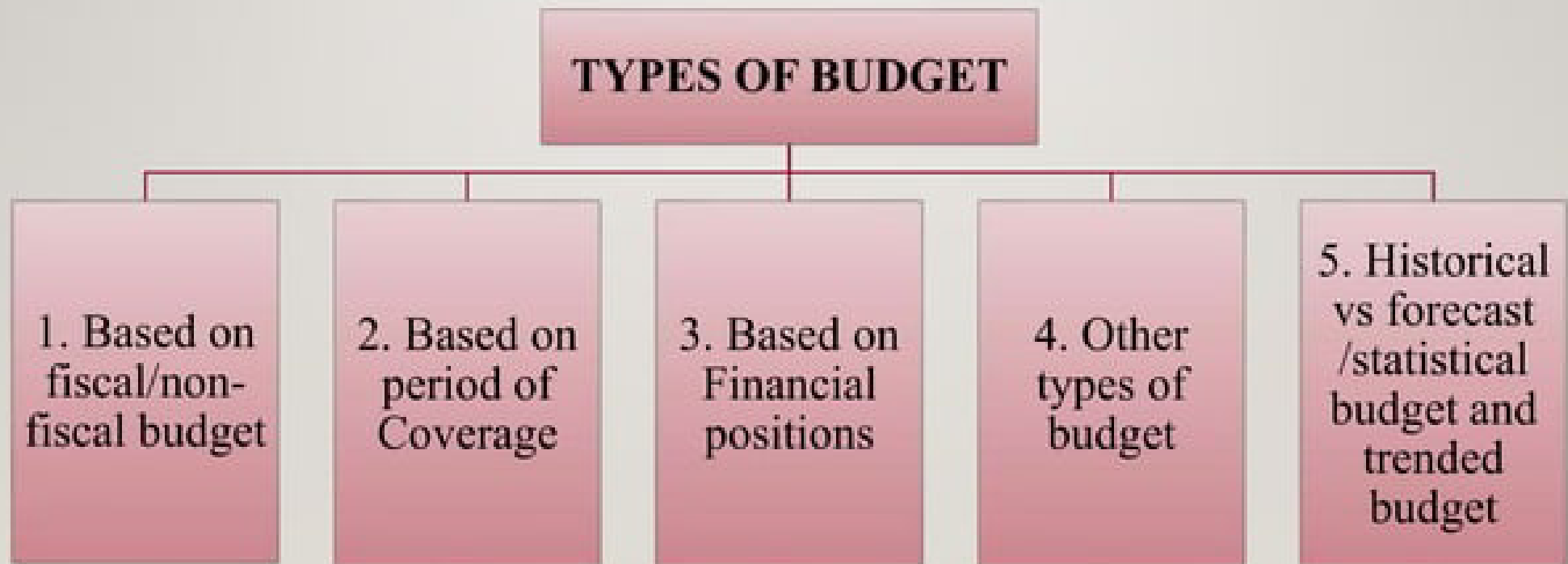
# PRINCIPLE OF BUDGET



# TYPES OF BUDGET

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- There are various types of budget, each of them are classified differently by the fiscal managers based on different criteria/basis.



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## 1. BASED ON FISCAL AND NONFISCAL BUDGET

### ➤ FISCAL/FINANCIAL BUDGET:

- *Capital expenditure Budget:* This type of budget includes the purchase of land, building, a major equipment of considerable expense and life long. These are major investment and reduces flexibility in budgeting.
- *Operating Budget:* Provides overview on agency functions for upcoming year. It includes the cost of supplies, minor equipment repairs, and overhead expenses.
- *Zero based Budgeting:* This type of budget is not based on the previous budgets. Instead, the budget starts from zero. All the expenses are justified based on expectations or desires for the upcoming year.



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- *Program Budget:* It is a budget prepared specifically for a project or program. This type of budget includes expenses and revenues related to one specific project.
- *Performance Budget:* It is based on the functions such as direct nursing care, supervision, in service education, nursing audit and so on.
- *Revenue and Expense Budget:* It is expressed in financial terms and takes the nature of proforma income statement for the future. It shows items of profit and loss under classified headings.





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## ➤ **NONFINANCIAL BUDGET:**

- *Direct Labor House (Personal) Budget:* Direct labor house budget includes the wages and salaries of regular employees.
- *Time, space, material and production budgets:* These budgets are expressed in quantities rather than in monetary terms. The budgets are translated into financial terms **E.g.:** direct labor hours, machine hours. The rupee cost would not accurately measure the resources used or the results intended.



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## 2. BASED ON PERIOD OF COVERAGE

- *Annual Budget:* A yearly budget. It is a financial plan that depicts income and expenditure for a fiscal year of an organization.
- *Long term Budget:* It is a financial plan depicting income and expenditure extended for more than one year in the future. Usually it is for a period of 5 years with strategic planning.
- *Current Budget:* A temporary or adjusted financial plan depicting the amount of money to spend in the current fiscal year that usually starts from July 1 to July 30.
- *Rollover Budget:* It is one that forecast program, revenue, and expenses for a period higher than a year, to accommodate applications that are larger than the annual budget cycle.



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## 3. BASED ON FINANCIAL POSITION

- *Cash Budget:* It is prepared by the way of projecting possible cash receipts and payment over the budget period.
- *Balanced deficit Budget:* It is a type of financial plan when expenses exceeds the income.
- *Balanced Budget:* It is a financial plan having revenue and expenditure equal or nearly equal or expenses that do not exceed income, usually found in the government sector.
- *Surplus Budget:* It is a financial plan depicting expected revenue exceeding the estimated expenditure for a fiscal year.



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## 4. OTHER TYPES OF BUDGET

- *Fixed Budget:* It refers to those components of budget that will not vary regardless of changes in patient census or number of procedures
- *Flexible Budget:* It is a variable budget and refers to those components of the budget that will determine how the budget should fluctuate based on those changes in the number of procedures or units of activity.
- *Open-ended Budget:* It is a financial plan in which each operating managers presents a single cost estimate for each programme in the unit without indicating how the budget should be scaled down if less funding is available.



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## 5. HISTORICAL VERSUS FORECAST/STATISTICAL BUDGET AND TRENDED BUDGET

- *Historical Budget:* In historical budget, the previous year expenses are considered as a basis for cost for the next year. Most healthcare institutions use historical data to develop a budget.
- *Forecast or statistical Budget:* It is developed by establishing a level of anticipated activity based on historical or other data such as loss or gain of a specific program.
- *Trended Budget:* It is one that is developed based on the previous year's expenditure pattern. If a specific percentage of expenses occurs in a particular month, the budget will be developed using those trends to spread the costs.



# MASTER BUDGET

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- When the budgets of all departments are combined, it results in a “Master Budget”.
- A master budget is a financial document depicting income and expenses, overhead and production/service cost, monthly, annual averages and total projections for a specified period.
- It also includes all operating budgets such as sales, marketing, direct labor, inventory, production etc.
- The master budget includes an operational and financial budget plan for a specified period.



**THANK YOU**



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