

**BUDGETING AND BUDGETARY CONTROL PRACTICES OF KOFORIDUA  
POLYTECHNIC**

**BY**

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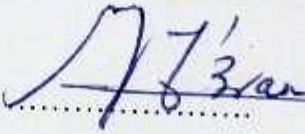
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## CERTIFICATION

I hereby declare that this submission is my own work towards the Master of Business Administration (MBA) degree and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.

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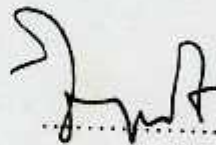
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## **DEDICATION**

This work is dedicated to my parents Mr. C. O. Asamoah and Madam Georgina Ntiwa, and all my uncles.

## ACKNOWLEDGEMENT

A work of this nature, undoubtedly, requires the input and assistance of many individuals.

In this regard, I wish to express my profound gratitude to my supervisor, Mr. Gabriel Ahinful, a lecturer at the Department of Accounting and Finance, KNUST School of Business, for his valuable suggestions and guidance towards the success of this work.

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Finally, my greatest thanks goes to the Almighty God for bringing me this far.

## ABSTRACT

This work sought to examine budgeting and budgetary control practices of Koforidua Polytechnic. Thus, to assess its budgeting processes, budget administration, and budgetary control procedures to be able to identify lapses so as to provide recommendations for improvement.

Findings indicated that the Polytechnic has embraced budgeting and budgetary control as a tool for its financial management. As a result the Polytechnic prepares a legislative budget which is sent through the National Council for Tertiary Education to the Ministry of Finance and Economic Planning for funding. This budget is prepared after all the departmental budgets have been prepared and collated.

Management budget is prepared based on the approved funds from the government to facilitate allocation of these financial resources to the two schools in the Polytechnic and for that matter the departments under them.

The performance of the various departments are monitored by the Finance Committee for reports on actual and budgeted income and expenditure to be prepared for onward submission to the National Council for Tertiary Education quarterly.

Variance reporting is effectively practiced by the Polytechnic and there is a computerized system in place for the preparation of budgets, however the Polytechnic has no budget manual.

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## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 BACKGROUND TO THE STUDY

For effective and efficient administration and management of any organization regardless of its size, objective or form of ownership to prevail, budgeting and budgetary control as a tool must be fully utilized. This is an indispensable tool and cannot be taken for granted if any organization aims at achieving its corporate objective.

It is required for every organization to adopt this tool because it has been realized that for any business to be successful in its operations a plan must be instituted to guide the execution of the various operational activities. In the absence of such a plan, the organization is likely to fail in the long run because resources are likely to be inefficiently allocated (Hansen and Mowen, 2000). According to Hilton (1999a) a budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specified period of time. Managements set goals ahead of time in an organization's budget and these are used as standards for performance appraisal, thus serving as the base for the evaluation of performance in units, subunits and other sections of a particular organization in the following financial or operational year (Gyasi, 1992).

Mensah-Botsio (2006a) makes it clear that before the commencement of a particular financial or operational year, departmental managers of a particular organization develop their plan of action in monetary and non monetary terms in accordance with the corporate

objective of the organization. These budgets from different units, subunits and other sections are incorporated into a master budget which summarizes all the activities planned by the organization for the budget period for implementation. In the course of implementation, actual results are compared with budgeted, variances are noted and appropriate measures implemented for correction. In the view of Garrison and Noreen (2003) this is what budgetary control is all about. This suggests that for effective budgeting to be realized budgetary control must be an accompanied tool.

It is believed by some writers such as Anthony and Young(1999) that budgeting and budgetary control though important for all organizations, it is more important in non-profit making organizations than in profit making organizations due to cost structure and spending flexibility. It can therefore be inferred that a non- profit making organization like Koforidua Polytechnic is likely to adopt a formula based on students' enrolment and other factors to budget its resources.

## **1.2 STATEMENT OF THE PROBLEM**

Every organization develops a set of goals such as profitability, growth and others with the hope of achieving them in the face of limited resources. Economic theory however states that a firm should conduct itself in a certain economic manner to be able to ensure an optimum allocation of resources for any anticipated objective to be achieved (McConnel and Brue, 1999). Managers who have opted and practiced budgeting and budgetary control are of the opinion that benefits associated with this practice outweigh

the cost, this therefore makes it imperative and worthwhile for all organizations both profit and non profit to employ this tool in the management of its limited resources.

Budgeting systems are mainly utilized in large profit making organizations than in public academic institutions such as Koforidua Polytechnic. The organizational structure and nature of public polytechnics call for the preparation of legislative budget to request for funds from government based on which management budgets are prepared in congruence with the approved funds.

Public polytechnics are established with many academic and non academic departments. For an efficient management of such institutions to prevail, a proper planning and control systems are required. Budgeting and budgetary control is among the numerous management tools that are needed for efficient allocation of organizations' resources (Drury, 2003a). It is therefore anticipated that a public polytechnic like Koforidua Polytechnic manages its both financial and non financial resources depending on budgeting and budgetary control systems as a tool of guidance. This study seeks to find that out.

### **1.3 OBJECTIVES OF THE STUDY**

The study focuses on the importance of managing the Polytechnic with budgeting and budgetary control systems serving as a guide, the budgeting system in place, the procedures involved in budget preparation, implementation and review. Specifically this research seeks to:

- i) identify the different budgeting objectives of the various departments in the

Polytechnic,

- ii) examine the various types of budgets prepared by the departments,
- iii) evaluate the various stages in the budget process and the activities that constitute every stage,
- iv) assess the procedures adopted by management for budgetary control activities,
- v) recommend ways that would help improve budgeting and budgetary control practices in the Polytechnic.

#### 1.4 RESEARCH QUESTIONS

In relation to the above objectives that the research aims at achieving, the study in a broader sense seeks to find answers to the questions below:

- i) what budgeting objective does each department normally seek to achieve?
- ii) what administrative procedures have been adopted by the Polytechnic in the preparation and implementation of its budgeting and budgetary control systems?
- iii) what are the factors which militate against the smooth preparation and implementation of budgeting and budgetary control systems in the Polytechnic?
- iv) is there the need for improvement on the current budgeting and budgetary control systems in place or is it adequate and reliable?

## **1.5 JUSTIFICATION OF THE STUDY**

Knowledge in the area of budgeting as a tool for planning and control in management will be enhanced.

Awareness will be created among business organizations especially non-profit making ones that budgeting and budgetary control is an invaluable tool for effective planning and control in any type of organization hence must be properly planned and implemented for maximum benefits to be reaped.

The study would provide the platform for the organization under study to discuss and identify its weaknesses regarding budgeting and budgetary control practices for the necessary improvement to be made.

## **1.6 RESEARCH METHODOLOGY**

The researcher proposes to utilize the following as main methods:

Both primary and secondary sources of data will be used. Types of primary sources of data to be used are self-administered questionnaire and face-to-face interviews. This is because firsthand information is needed to ensure originality.

The types of secondary sources of data to be used are the internet, journals, books, periodicals and newspapers. This is because they are widely available. They share with the reader the results of other studies that are closely related to the study being embarked on. They also provide a framework for establishing the importance of the study as well

as a benchmark for comparing results of other findings. Data would be analysed qualitatively. This will facilitate the discussion of the findings.

### **1.7 SCOPE OF THE STUDY**

The study should have covered all the polytechnics in the country but due to time and financial constraints only one of them that is Koforidua Polytechnic has been chosen.

Also expert opinions of former spending officers in the institution under study should have been sought but were difficult to be traced so the study was confined to those officers available currently.

### **1.8 LIMITATIONS OF THE STUDY**

The research investigates and examines the budgeting and budgetary control practices in Koforidua Polytechnic. This involves identifying types of budgets prepared by the various departments, its implementation and so on.

Due to time, logistics and financial constraints the study was limited or restricted to Koforidua Polytechnic and as a result findings from this study cannot be generalized for all polytechnics in the country.

Secondly, the study depended solely on the information provided or given by the respective respondents to the questionnaire and other interviews hence the reliability and dependability of the findings lies in the integrity of respondents.

Lastly, the study was limited by lack of accurate and adequate information from uncooperative respondents.

## **1.9 ORGANISATION OF THE STUDY**

Chapter one of the study covers the introduction. It involves a brief coverage of the background to the study, statement of the problem, objectives of the study, justification of the study, the scope of the study, the limitations of the study and the organization of the study.

Chapter two deals with the review of related literature, it covers applied and theoretical exposition on budgeting and budgetary control. The literature review involves the concept of budget and budgeting, the concept of budgetary control, the importance of budgeting and budgetary control, budgeting models, budget administration, stages in budgeting and others.

Chapter three deals with the methodology adopted for the research as well as organizational profile of Koforidua Polytechnic.

Chapter four covers the analysis of data. It gives a descriptive report of the study as well as the analysis of the answered questionnaires.

Chapter five which incidentally happens to be the last chapter involves the summary, conclusion and recommendations of the study. It covers the overall summary of the

study, conclusion and appropriate recommendations aimed at enhancing budgeting and budgetary control practices at Koforidua Polytechnic.

## CHAPTER TWO

### 2.0 REVIEW OF RELATED LITERATURE

#### 2.1 INTRODUCTION

Due to the important nature of budgeting and budgetary control concept, many authors have contributed in diverse ways their views concerning this subject. While some stipulate the importance regarding the subject under consideration, others emphasize on the process and problems that are encountered when practicing it.

This chapter discusses some fundamental concepts and gives a comprehensive review of related literature on budgeting and budgetary control practices, its importance and problems that it poses to provide a theoretical framework for the research.

#### 2.2 THE CONCEPT OF BUDGET AND BUDGETING

Budgeting involves planning for the various revenue producing and cost generating activities of an organization (Martin, 2008). Koerber (1993) describes the concept of budgeting as evaluating what has taken place and preparing goals or plans for the future. The former definition is adopted for this study.

Oduro (2001) describes budget as a plan quantified in monetary terms, prepared and approved prior to a defined period of time, usually showing planned income to be generated and /or expenditure to be incurred during that period and the capital to be employed to attain a given objective. Thus a budget is a quantified, planned course of

action over a definitive time period. It is an attempt to estimate inputs and the costs of inputs along with associated outputs and revenues from outputs.

FAO documentary report (2007) argued that a budget is a formal statement of the financial resources set aside for carrying out specific activities in a given period of time. It helps to coordinate the activities of the organization.

According to Maher et al (2006) a budget is simply the plan stated in financial terms, of how the organization expects to carry out its activities and meet the financial goals established in the planning process.

CIMA (2008) defines a budget as a financial and or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective. This research associates itself with this definition.

### **2.2.1 BUDGETING PROCESS**

Budgeting process varies widely from one organization to another. Differences in management style, organizational objectives, structure of competition and similar factors affect procedures adopted for budgeting and budgetary control purposes (Maher et al, 1994). However in the views of Hongren et al (2003) there are a set of guidelines (steps) which are used in the budgeting process by a large number of organizations which begins with obtaining estimates of sales, production levels, expected costs, and availability of

resources from each department. In addition, according to Rayburn (1989) the budget committee secondly evaluates the different plans submitted by the various departments to determine the potentiality of plans in the overall interests of the company and to estimate what resources are available and can be fairly allocated among the various departments.

In the view of Mensah-Botsio (2006b), the process does not end here. The budget is now communicated to responsible managers and the concerned departments and any changes and modifications incorporated made known to managers to obtain their cooperation and support for the budget.

According to Hilton (1999b) the budget plan is finally implemented and performance reports are prepared to inform departmental managers and top managers about performances achieved in terms of budgeted figures.

### **2.2.2 IMPORTANCE OF PREPARING BUDGETS**

Morais (1997) stated that budgets provide standards through which organizations spend and use those standards as guide. He added that budgets because of their time bound help managements in organizations to work according to schedules and finish on time to meet targets.

In collaboration with the above assertion made by Morais (1997), Appiah-Kusi (2004) comes in to make known some benefits associated with preparing budget. For him

budgets provide a means of communicating management's plans throughout the organization and in addition forces management to think and plan for the future.

Folk et al (2002) on the other hand, even though do not condemn what other writers have said, they place much emphasis on the fact that the budgeting process provides a means of allocating resources to those parts of the organization where they can be used most effectively and above all budgets coordinate the activities of the entire organization by integrating the plans of the various parts.

Jain (2000) claims that one importance regarding budgets preparation which cannot be overlooked is that budgets define goals and objectives that can serve as benchmark for evaluating subsequent performance and the budgeting process can uncover the bottlenecks before they occur.

### 2.2.3 PROBLEMS IN BUDGETING

Even though there are many benefits enjoyed by organizations that adopt budgeting as one of its policies, there are problems associated with this concept that if not well handled can impact the budgeting process negatively. According to Kishore (2005a) budgets are perceived by the workforce as pressure devices imposed by top management and apathetic workforce are difficult to be motivated with budgets. Drury (2003b) in his view recognizes the benefits enjoyed when budget is adopted as a policy but adds that budget may bring departmental conflict, and due to such pressure the budgeting system may result in an inaccurate record keeping.

Again Kishore (2005b) hints on the human factor in budget preparation. In his view he points out that individuals come together in preparing budgets and as a result may be difficult to align individuals and corporate goals in the course of budgeting.

#### **2.2.4 FEATURES OF A GOOD BUDGET**

A good budget must have certain features. Carr (1997) describes a good budget as a budget with which many employees are involved in its preparation. On the other hand in a document provided by the FAO (2008) available online, apart from what Carr (1997) has stressed on the following are recognized as other important characteristics of a good budget; A good budget must be comprehensive thus embracing the whole organization; It must be based on established standards of performance; It should be flexible and above all it must allow cost and benefit analysis to be conducted efficiently.

#### **2.2.5 BUDGET PREPARATION**

In budget preparation the most important element that is initially determined is the principal budget factor. CIMA (2000) defines a principal budget factor as the factor the extent of whose influence must first be assessed in order to ensure that the functional budget are reasonably capable of fulfillment.

Kotler and Keller (2006) believe that after the principal budget factor has been identified the next approach is to prepare the sales budget both in units of each product and in sales value also. Hermanson et al (1998a) argue that the preparation of the production budget takes place right after the sales budget has been prepared and must be expressed in

quantitative terms only and geared towards the sales budget. Based on the production budget the raw materials and purchasing budget are prepared and afterwards the labour budget.

The cash budget which indicates the cash plan for a defined period of time and normally shows how capital budget would be financed as well as summarizes monthly receipts and payments is the last to be prepared before the master budget according to Ainsworth et al (2000).

### **2.3 THE TWO-STAGE BUDGET**

In government educational organizations, two budgets are prepared. According to Engler (1988) the first budget which is referred to as the legislative budget is essentially prepared to request for funds from the government. This does not correspond to the budget that is prepared in a profit making organization.

Schich (1985) adds that management budget is prepared after the legislature has decided on the amount of funds that is to be provided. This budget corresponds to the budget prepared in a for profit company.

### **2.4 THE CONCEPT OF BUDGETARY CONTROL**

No system of planning can be successful without having an effective and efficient system of control. Budgeting is closely connected with control. A system of budgetary control should not become rigid. There should be enough scope of flexibility to provide for

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 costs and achieving the overall objectives (Lay network, 2008).

CIMA (1994) defines budgetary control as the establishment of budgets relating the responsibility of executives to the requirements of a policy and a continuous comparison of actual with budgeted results either to secure by individual the objectives of that policy or to provide a basis for revision. This definition is adopted for this research.

According to Garrison and Noreen (2000), to control a budget one has to formulate general policies and procedures needed to achieve objectives, create internal control (approval prior to expenditures), keep an accurate written log of financial transactions, and periodically compare the budget to one's actual logged expenditures.

#### **2.4.1 ESSENTIALS OF BUDGETARY CONTROL SYSTEMS**

For a budgetary control system to be effective for its purposes to be achieved certain necessary conditions must prevail. Lucey (2003) advocates that there must a clearly defined organizational objectives, an organizational structure that clearly defines areas of authority and responsibility. Such a structure allows managers at all levels to be given specific responsibility for particular functions or operations as well as efficient accounting records and procedures.

In their view Glautier et al (1988) reiterate that the above alone are not enough for effective budgetary control to prevail and as a result recommend in addition that top management's commitment, participation by cost centre managers in the budget process and above all flexibility in the manner in which budget targets are modified and adjusted as circumstances change during the evolution of the budget period should be in place.

#### **2.4.2 BUDGETARY CONTROL PROCESS**

According to Larson et al (1999a) the process of budgetary control involves the following four steps:

- i) Develop the budget from planned objectives;
- ii) Compare actual results to budgeted amounts and analyze differences;
- iii) Take corrective and strategic actions and
- iv) Establish new planned objectives and prepare a new budget.

#### **2.4.3 PURPOSES OR OBJECTIVES OF BUDGETARY CONTROL**

Organizations set up budgetary control systems for many purposes. According to Oduro (2006) many organizations be it profit or non profit making ones institute a budgetary control systems to ensure that a provision is made for a detailed plan of action for a business over a definite period of time; To co-ordinate all the activities of the organization in such a manner that the maximum profit will be attained for the minimum investment of capital; To provide a standard for evaluating the efficiency of the firms operations. This is done through the medium of comparison between actual and budgeted results.

Sarpong et al (2005) in support of the above contribute that budgetary control systems are adopted in order to fix in monetary terms the objectives which the business plans to achieve in that period and to ensure that sufficient resources are available for its attainment as well as to control each department or function so that the best possible results can be obtained.

#### **2.4.4 BUDGETARY CONTROL AND VARIANCE ANALYSIS**

According to Borglum (2004) a budget serves no purpose if one does not periodically compare ones practice's actual finances with ones budget and make the necessary changes. This makes variance analysis an important tool.

In the view of Globusz (2008) a variance is the difference between an actual result and an expected result. The process by which the total difference between standard and actual results is analysed is known as variance analysis. When actual results are better than the expected results, there is a favourable variance, on the other hand, when actual results are worse than expected results there is an adverse.

In a free encyclopedia (2008) online the concept of variance analysis is described as being intrinsically connected with planned and actual results and effects of the difference between those two on the performance of the entity or company..

Timberly (2008) adds his voice by saying that even though variance analysis can be very complex it is vital to good management and its tables can provide management with significant information.

## **2.5 BUDGETING MODELS**

An organization can adopt one or more of the following budgeting models for the preparation of any type of its budget.

### **2.5.1 INCREMENTAL BUDGETING**

As a method of decision making, incrementalism is a practicable device for coping with the overwhelmingly complex job of budgeting. This year's budget is simply based on last year's budget, with minor increases or decreases around the edges. So, the current budget decision is the product of previous decisions, which admits that precedent and past commitment in policy formulation is essential in the long term (Hayes, 2001).

According to Peter (2006) incremental budgeting involves a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period and allocation of resources based upon allocations from the previous period.

### **2.5.2 ROLLING BUDGET**

In the view of Batty (1987) there is no generally accepted definition of a rolling budget or rolling forecast. The term is used to indicate that figures are projected in a manner which

allows considerable flexibility, thus avoiding the problems associated with the yearly budget which may rapidly become out of date.

However businesses are increasingly using rolling budgets also called continuous budgeting. Rolling budgets always involve maintaining a plan for a specified time period in the future. This result is achieved by adding a new time period in the future as the current time period that ended is dropped (Lynn and Madison, 2004). That is rolling budget is a budget or plan that is always available for a specified future period by adding a period ( month, quarter or year ) to the period that just ended (Sandevyl, 2007).

It must be emphasized that sound managers operate an entity with one eye always on the horizon, and a well-prepared business plan as reflected in a "flexible rolling budget" can be one of the financial managers' best tools to assist them in their role of planning and controlling the operations of the organization (Charles, 2007).

### **2.5.3 ZERO BASED BUDGETING**

A method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a "zero base" and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one (Bushman, 2007).

Zero based budgeting allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped, then measured against previous results and current expectations (University of London, 2008).

In an article online LaFaive (2003) lauds zero-based budgeting that it can lower costs by avoiding blanket increases or decreases to a prior period's budget. Case studies about businesses and governments that have adopted zero-based budgeting, or some hybrid of it, generally report some improvement quantitatively or qualitatively.

It is however a time-consuming process that takes much longer time than traditional cost-based budgeting (Investopedia, 2008).

#### **2.5.4 FIXED BUDGET**

ACCA (2007) defines fixed budget as a budget which is normally set prior to the start of an accounting period and which is not changed in response to changes in activity or cost/revenues.

#### **2.5.5 FLEXIBLE BUDGET**

A flexible budget is a budget which is designed to change if a volume of activity changes (ACCA, 2008). Blocher et al (2005) describe a flexible budget as a budget that adjusts revenues and expenses to the actual output achieved.

According to Dizzey (1997), to be able to prepare a flexible budget the cost accountant must be in the position to separate the cost under consideration into fixed and variable components. This makes the preparation easy to be done.

#### **2.5.6 LINE ITEM BUDGET**

According to the financial dictionary (2008) it is a budget initiated by government entities in which budgeted financial statement elements are grouped by administrative entities and object.

This is a more traditional method of developing a budget using the previous year's budget as a base and will then require a justification for any increase that is requested for the ensuing year. In other words, the budget exists to provide a list of how much the athletic department for instance will spend on every item it uses. It follows a line of reasoning that there is a place for everything, and everything in its place (Duncan, 2007).

#### **2.5.7 PLANNING, PROGRAMMING AND BUDGETING SYSTEMS**

It emphasizes outputs of an organization in programmed areas rather than inputs. A programme is a specific activity or set of activities established to achieve the desired objective. It is a formal planning system that uses a programme budget and emphasizes cost-benefit analysis (Morse et al, 1984).

## **2.6 BUDGET STRUCTURE**

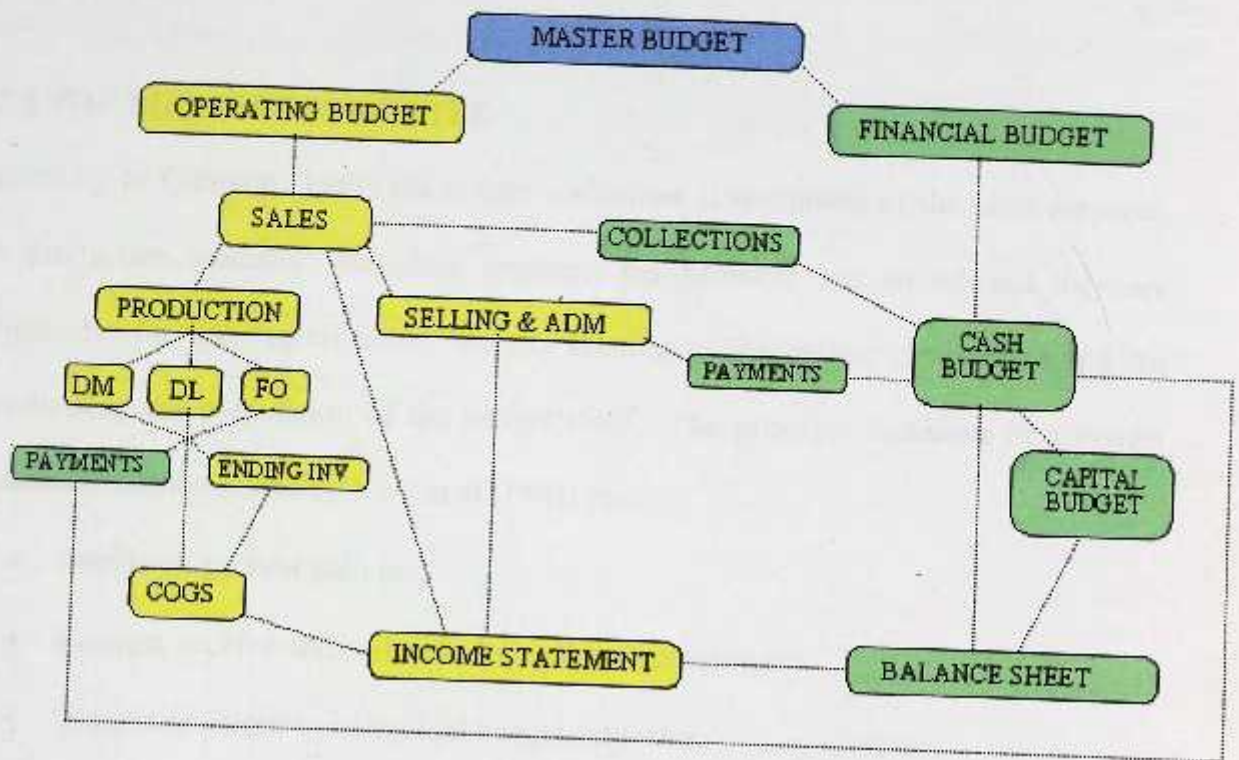
In a large organization, many individuals participate in developing the budget. The responsibility for coordinating the budget is delegated to a budget committee under the supervision of a budget director, who usually reports to the controller. The budget director suggests procedures for budget preparation and gives assistance and information to those responsible for preparing preliminary budgets for their departments. The budget director also reviews the departmental budgets to make certain that they are compatible and will achieve the common goals. The budget director then assembles the final departmental budgets into the master budget (Palmer et al, 1998).

### **2.6.1 MASTER BUDGET (FINANCIAL PLAN)**

The master budget, the principal output of a budgeting system, is a comprehensive profit plan that ties together all phases of an organizations' operations (Hilton, 2002).

The master budget is the primary financial planning mechanism for an organization and also provides the foundation for a traditional financial control system. More specifically, it is a comprehensive integrated financial plan developed for a specific period of time, for instance, for a month, quarter, or year. A diagram illustrating the various parts of a master budget is presented in exhibit 9-4.

EXHIBIT 9-4  
DIAGRAM OF A MASTER BUDGET\*



The master budget has two major parts including the operating budget and the financial budget. The operating budget begins with the sales budget and ends with the budgeted income statement. The financial budget includes the capital budget as well as a cash budget, and a budgeted balance sheet (Hermanson et al, 2008).

## 2.7 BUDGET ADMINISTRATION

In many organizations, as already mentioned apart from the budget committee instituted, a budget officer or director is designated who helps in gathering information for the

preparation of the master budget. The officer often develops and disseminates a budget manual (Hilton et al, 2003).

### **2.7.1 THE BUDGET COMMITTEE**

According to Garrison (1991) the budget committee is composed of the sales manager, the production manager, the chief engineer, the treasurer and so on and they are responsible for the overall policy matters relating to the budget programme and for coordinating the preparation of the budget itself. The principal functions of a budget committee as enumerated by Usry et al (1984) are:

- Decide on general policies.
- Request, receive and review individual budget estimates.
- Suggest revisions in individual budget estimates.
- Approve budgets and later revisions.
- Receive and analyze budget reports.
- Recommend actions designed to improve efficiency where necessary.

### **2.7.2 THE BUDGET OFFICER (DIRECTOR)**

He controls the budget administration. His job involves liaising between the budget committee and managers responsible for budget preparation, dealing with budgetary control problems, ensuring that deadlines are met, and educating people about budgetary control (Harper, 1993).

### **2.7.3 THE BUDGET MANUAL**

This document contains the organizational chart, details of budget preparation procedures, account codes for items of expenditure and revenue, timetable for the process, and clearly defines the responsibility of persons involved in the budget preparation (Reddy et al, 2007).

## **CHAPTER THREE**

### **3.0 METHODOLOGY AND ORGANISATIONAL PROFILE**

#### **3.1 INTRODUCTION**

This chapter outlines the methodology used in gathering the relevant data for the research. The chapter involves a detailed discussion of the research technique, data sources, sampling population, sampling selection/technique, research instrument and data analysis as well as the profile of Koforidua Polytechnic.

#### **3.2 RESEARCH TECHNIQUE**

The research strategy is a case study and it is intended to bring a better understanding of the context and the processes involved in the research (Saunders et al, 2007). This is very vital because this research involves an examination of the budgeting and budgetary control practices of Koforidua Polytechnic.

However, this research lacks the basis for scientific generalization, as it was only concerned with a single experiment. As such, it is only generalized to theoretical propositions and not to other populations and bias could have entered with ease.

The study was also both descriptive and evaluative. This is because it systematically gathered and presented data to give a comprehensive highlight of the nature of budgeting and budgetary control practices in the Polytechnic. In addition it examined and evaluated

budgeting and budgetary control activities in the Polytechnic to identify lapses and problems in order to give recommendations for improvement.

### **3.3 SOURCES OF DATA**

To examine budgeting and budgetary control practices of Koforidua Polytechnic, the study used both primary and secondary data. The primary data were collected through the use of questionnaire and interviews conducted in the finance office of the institution.

Most relevant secondary data were obtained from the following sources;

- Copies of the Polytechnic budgets for the past two years from the finance office,
- Copies of expenditure returns from the departments and the Polytechnic quarterly returns to the Sector Minister.

### **3.4 POPULATION**

The study was conducted in the Koforidua Polytechnic of Eastern Region. The research primarily focused on the Finance Office of the Polytechnic hence the account staff. The Finance Office was chosen because it controls all the budgeting activities of the institution and all policies regarding budgeting and budgetary control practices are initiated and implemented under its supervision. In addition to the above, Spending Officers (this includes Deans, Vice Deans, Head of departments, Administrators, Administrative Assistants, Clerks, Hall Masters and so on) were interviewed. This is because of the key positions they hold and the fact that they are involved in outlaying funds for the purposes of achieving the organizational goal. The table below shows the numbers found in the various categories;

Table 1 Categories of respondents

Category	Number
Account Staff	23
Spending Officers	22
<u>Total</u>	<u>45</u>

Source: Survey data; August 2008.

### **3.5 SAMPLE SELECTION/TECHNIQUE**

Due to the kind of information that was needed for this study and the fact that a case study strategy was adopted for this research out of a population of forty-five, only ten were purposively selected (taking into account the key positions they hold in relation to financial management of the Polytechnic) because they were deemed by the researcher as those having the right and adequate information to facilitate the successful completion of this research.

In all five Spending Officers were selected representing 22.7% of the Spending Officers category. 21.7% of the account staff were selected and contacted, meaning that five staff members in the Finance Office were selected for the study.

### **3.6 INSTRUMENTATION FOR DATA COLLECTION**

A well focused questionnaire and interview were used to gather data for this study.

### **3.6.1 QUESTIONNAIRE**

The questionnaire constituted both open and closed ended questions. The items were designed around budgeting process, budget administration, budgeting control procedures and so on.

In all ten questionnaires were administered. The questionnaire consisted of three sections. Section A was about budgeting practices and was composed of twenty-five (25) items. Section B looked at budget administration and had nine (9) question items. The last section was section C which focused on budgetary control practices and procedures and consisted of ten (10) question item.

The main advantage of the questionnaires method is the collection of a large amount of data from a sizable population in a highly economical way (Opoku, 2002).

### **3.6.2 PILOT STUDY**

The questionnaires were initially pre-tested. This helped the researcher to be able to revise the questionnaire to make it more effective and efficient in retrieving the right information for quality research to be conducted. It must be noted that this did not form part of the actual fieldwork.

### **3.6.3 PROCEDURES IN DATA COLLECTION**

All the questionnaires were personally distributed to the selected respondents. The respondents were given one and half weeks to respond to the questionnaires. This

became appropriate in the face of inefficient and inadequate postal system in Ghana. Follow up was made through telephone calls and emails.

In all, ten sampled respondents answered the questionnaires that were given to them meaning that 100% of the respondents provided their views for the study.

Even though all questionnaires administered were answered at the end of the field work, it cannot be denied that data collection was a challenging task. Some individual respondents misplaced their questionnaires and new ones had to be sent to them. As already indicated, though this difficulty was met, all the questionnaires were answered and retrieved.

### **3.7 DATA ANALYSIS**

The responses were edited to ensure consistency. The researcher read through all the responses purposely to determine or identify whether the questions were properly answered.

Qualitative method of data analysis was introduced in the data analysis. The analysis was done in relation to the research objectives and problem.

### **3.8 PROFILE OF KOFORIDUA POLYTECHNIC**

Koforidua Polytechnic was established in 1996/97 academic year. The Polytechnic which was founded with the mission of producing high level, career-focused and skilled

manpower to support the country's growth has since 1999 turned out graduates with Higher National Diploma (HND) in Accountancy, Marketing, Purchasing and Supply and Statistics.

The first two HND programmes (Marketing and Purchasing and Supply) were started in 1997. Two more HND programmes (Accountancy and Statistics) were also introduced in 1998. Two new HND programmes, Computer Science and Computer Network Management, have been added bringing the total to six. Currently, five new non HND Professional Programmes have been added to the mix. These are:

- Chartered Institute of Bankers Intermediate
- Institute of Chartered Accountants I & II
- Ghana Accounting Technician I, II & III
- Diploma in Business Studies (Accounting Option)
- Diploma in Business Studies (Secretaryship Option).

The School has introduced Cookery 812/1 & 2 and it is working hard to upgrade them into HND programmes within the shortest possible time. Part time HND Purchasing and Supply has also been started to raise the Part time HND programmes to three.

Some members of the staff have been trained to run advanced courses in Mechanical, Electrical and Automobile Engineering alongside Construction Technician Certificate courses. The plan of the Institution to expand from non HND courses to HND courses in

the next academic year is on course with assistance from Spanish and Dutch grants obtained through the government Department of Engineering.

### **3.8.1 SCHOOL OF BUSINESS AND MANAGEMENT STUDIES**

The School of Business and Management Studies was established in 2004. It is one of the two schools in the Polytechnic.

The mission of the school is to train students in business-related programmes and to turn out highly qualified middle-level professionals for the various sectors of the economy.

The School consists of the office of the Dean and five departments. These departments are:

- Accountancy
- Marketing
- Purchasing and Supply
- Professional Studies and
- Liberal Studies

As already noted the Department of Accountancy, which was established in October 1997 is part of the School of Business and Management Studies. Initially the Department offered courses only in Higher National Diploma (HND) and Accountancy and Diploma in Business (DBS), Accounting Option. The Department later introduced professional courses such as Chartered Institute of Bankers (CIB), Institute of Chartered Accountants (ICA) Ghana, and Ghana Accounting Technicians (GAT).

The mission of the Accountancy Department is to train middle level accountants for the manpower needs of industry, conduct research, provide consultancy services, influence the business community in its immediate environment through workshops in management skills and book-keeping to help graduates and entrepreneurs to meet the challenges and dynamism of the business world. Thus the Department has a broad goal to train and turn out competent graduates with the requisite theoretical and practicable skills to provide the needed managerial and entrepreneurial skills in industry, commerce and the public sector.

The Department of Marketing, which started in March 1997, is one of the five (5) departments of the School of Business and Management Studies. The Department is one of the pioneer departments with which Koforidua Polytechnic was started in the 1996/1997 academic year. It was accredited by the National Accreditation Board a year after its inception.

The mission of the Department is to contribute towards national development by providing excellent and relevant career-focused education and training of marketing personnel, with specialization in customer care skills, to meet the growing demand for marketing professionals in both profit and non-profit entities and to offer quality consultancy services in marketing to these entities.

The Department of Purchasing and Supply was established in March 1997. The Department was one of the two pioneer departments, (the other being the Department of Marketing) which gave birth to Koforidua Polytechnic in the year 1996/1997.

The mission of this Department is to train men and women of integrity as Supply Chain Management Professionals equipped with the relevant skills and knowledge to face new managerial challenges relating to stores and procurement responsibilities resulting in sufficient cost-saving to improve corporate profitability and ensure best value for money spent.

The Department of Professional Studies was established in February, 2003 after Management saw the need to split the Accountancy Department into two:

- Accountancy
- Professional

The Department is in the business of training students and providing needed skilled labour for the job market. The Department aims to help resolve the middle level manpower shortage in financial institutions as well as industry by producing graduates with the requisite theoretical and practical backgrounds.

The Department of Liberal Studies is multidisciplinary and as such accommodates academic staff whose specialties transcend a single professional training. Liberal Studies has gained its place in Polytechnic Education as a provider of multidisciplinary skills.

The Department aims to help students acquire mastery and proficiency in English language. It also aims to equip students with basic knowledge on legal and socio-economic issues to enable them operate efficiently as professionals and experts in their fields of endeavour.

### 3.8.2 SCHOOL OF APPLIED SCIENCE AND TECHNOLOGY (SAST)

The School was established in 2003 as School of Applied Science and Technology to enhance the training of students in Science, Technology and their related fields with the sole objective of turning out professionals, both for the industry and academia. The school consists of four departments namely:

- Engineering
- Computer Science
- Statistics and
- Hospitality

The Department of Statistics was established in 1997. The mission of the Statistics Department is to help students develop their intellect, and expand their understanding of the role of science in the objective and systematic pursuit of truth. Again the Department aims to help students appreciate how sound statistical methodology strengthens scientific conclusions, cultivates the ability to understand and communicate the results of empirical research in an ethical manner and develop and apply methods of modern statistical science.

The Computer Science Department is one of the newly-created Departments in the School of Applied Sciences and Technology. The mission of the Department is to provide students with excellent academic and professional training in Information and Communication Technology with the view to meeting the skilled manpower needs for development and efficient management of organizations.

The Hospitality Department, though young is a vibrant department seeking to excel in all areas of academia, administration, community development and so on. The Hospitality programme started in November 2004.

It is the mission of the Department to adequately equip students with the professional competencies they require for future leadership roles in the competitive local and international hospitality market through quality teaching and learning.

The Engineering Department started with its programmes in September 2004. The objective of this Department is to impart professional skills and competencies to students and equip them with the requisite skills to face the world of work with confidence.

The Department also trains students to occupy sensitive positions of trust and perform managerial functions in both public and private sectors.

The School of Applied Science is under the deanship of an eminent man whose office is the center of the Administrative System of the school, from where communication within and outside the School is transmitted.

The School is one of the best in Ghana's Educational System in terms of the good number of academia for the country and above all the only Polytechnic which has a Computer Science which will in the next few years produce some of the best students in the ICT System. The programmes of the School are well and carefully monitored and

reviewed with time to suit the academia requirements of the country. The various departments in the School are manned by competent lecturers and instructors.

### **3.8.3 THE FINANCE OFFICE (ACCOUNTS OFFICE)**

The Finance Office of the Polytechnic was established in March 1999. Before its establishment the institution depended on a unit called the Payroll Unit which was only dealing with salaries of the Polytechnic's non- teaching and teaching staff. Due to expansion the need arose for a bigger finance office to be created to take over the activities of the payroll unit and to undertake other important activities for the Polytechnic.

At the moment the Finance Office is headed by a chartered accountant who is referred to as the Finance Officer. The office has twenty three staff members currently.

The Finance Office is composed of four sections. They include the following:

- Stores Unit
- Cash Office
- Students Account Office and
- The Central Account Office

#### **i) STORES UNIT**

The Stores Unit of the Finance Office manages all assets and other material belonging to the Polytechnic. It keeps records of every belongings of the Polytechnic. It mediates between the Institution and the Procurement Board of Ghana in relation to procurement

of items for the School. In consultation with the Central Account Office of the Finance Office the Stores Unit purchases and receives items for the Polytechnic.

The Stores Unit also assist in a special way the library department in procuring textbooks and other reading materials for it and ensures that records about each book sent to the library are kept in the books of the Stores Unit.

### **ii) CASH OFFICE**

The Cash Office of the Finance Office deals with all cash received on behalf of the Polytechnic. It keeps records of all cash received and that paid out by the Institution. It manages the cash of the Polytechnic and ensures that the right amount of balance is kept by the Institution to settle certain obligations as and when they fall due. One key function of the Cash Office is to prepare the Cash budget for the Polytechnic in consultation with the Budgeting Unit of the Central Account Office. Above all the Cash Office in collaboration with the Central Account Office advises the Institution on issues relating to revenue generation, cash disbursement and so on.

### **iii) STUDENT ACCOUNT OFFICE**

This section of the Finance Office keeps financial records of every individual student who has been admitted into the Polytechnic. Records of ledger accounts of every individual student are kept by this section. Before any cash is paid to the Cash Account Office by any student, the Student Account Office has to provide the student with a note certifying that he or she has records with them and he or she is allowed to have a

transaction with the Cash Account Office. Other than that the student would not be allowed into the Cash Account Office to transact any transaction with them. This facilitates the smooth running of the affairs of both the Student Account Office and the Cash Account Office.

The Student Account Office is composed of well trained accounting professionals who see to it that every student of the Polytechnic has the necessary financial records with them.

#### **iv) THE CENTRAL ACCOUNT OFFICE**

The Central Account Office of the Finance Office constitutes two important units. It has the Payroll Unit and the Budgeting Unit. The Payroll Unit as the name implies deals with issues relating to salaries and wages of both the teaching and the non teaching staff in the Finance Office and the Institution as a whole. Records of loan (advances) taken from the Polytechnic and bonuses given to both teaching and non teaching staff are kept and supervised by this unit. Emphatically speaking this unit is the custodian of the above mentioned records for the Institution.

The Budgeting Unit is in charge of all budgeting activities of the Polytechnic. It gives notice to departments and schools. It must be noted that the Budgeting Unit institutes the Finance Committee of the Polytechnic. This means that whenever somebody needs to be called upon to become part of the Finance Committee it is handled by the Budgeting Unit in the Finance Office. It initiates budget preparation and supervises it. This Unit

represents the Polytechnic in all budgeting platforms and it is the Unit that defends budgets prepared by the Polytechnic to request for funds from the government during meetings with National Council for Tertiary Education. The Finance Office as already noted coordinates and supervises all the activities of the sections enumerated above.

## **CHAPTER FOUR**

### **4.0 DATA ANALYSIS AND DISCUSSIONS**

#### **4.1 INTRODUCTION**

The purpose of this study was to examine critically budgeting and budgetary control practices of Koforidua Polytechnic. This chapter involves a thorough analysis and discussion of the primary and secondary data collected from Koforidua Polytechnic.

#### **4.2 TYPES OF BUDGET PREPARED BY DEPARTMENTS**

The respondents disclosed that capital expenditure budget and cash budget are prepared by the various departments. Recurrent budget is also prepared by some departments. This indicates that the main budgets prepared by the various departments of the Polytechnic are the capital expenditure budget and the cash budget. However, sometimes a department goes further to prepare recurrent revenue budget which is normally the work of the entire Polytechnic. According to them it is incumbent on every department to prepare cash and capital expenditure budget but departments are allowed to prepare recurrent revenue budget if they so wish, so some departments sometimes prepare that in addition to enable that department know its entire revenue status for the coming year especially if the department undertakes other revenue generating activity.

On the other hand, on issues bothering on seriousness with budgeting activities in the Polytechnic, the respondents expressed their disappointment that really budgeting issues are not taken seriously as expected. According to them, dates set for meetings

concerning budgets to be held are mostly not strictly adhered to, and most of the departmental heads usually delegate the budget preparation task to their subordinates or assistants in the departments. Supervision of budgets prepared at the various departments by the Deans is usually not done and as they claim it is due to time constraints. There is unsatisfactory and poor attitude on the part of the administrative staff towards budget preparation in departments because they feel they are not allowed to participate fully when suggestions are being solicited. That is to say their views are not welcome during budget preparation period.

Lastly guidelines provided by the Ministry of Finance and Economic Planning are not meticulously followed. These individual respondents however noted that these grievances being unearthed are not common to all the departments in the Polytechnic.

According to them even though all these challenges are faced, they claim that their objectives for preparing budgets are always met.

On capital budgeting issues, the respondents indicated that amount of money, the irreversible nature of capital budgeting decisions and long term commitment of such investments are considered respectively when preparing capital budgets. This therefore confirms the assertion made by Larson et al (1999b) that all the above enumerated issues are considered when preparing a capital budget and this is being practiced by the Polytechnic's departments. It must therefore be noted that the irreversible nature of

capital budgeting decisions is highly prioritized in terms of decisions considered when preparing capital budgets in the various departments.

Capital expenditure as was revealed by the respondents is approved by the Polytechnic Council. Before the approval the items on the capital budget are extensively discussed and recalculated to ensure their genuineness and necessity for the development of the Institution. On this issue each member of the Council is allowed to express his or her opinion on the expenditure items so that if there happens to be the need for modification the budget is sent to the appropriate quarters for the changes to be made. Whenever it becomes necessary for modifications to be made the budget committee is usually charged with the responsibility to do so. They are always given a timeframe within which they are to execute this responsibility. This is to ensure that they work within time to facilitate a successful completion of the budget preparation for an approval. As they claim this is a very sensitive area and as a result the Polytechnic Council does not take it for granted since it happens to involve an outlay of a huge amount of money.

The respondents indicated that capital expenditure budget is financed from internally generated funds, government grants and the GET fund respectively. According to them capital expenditure budgets are usually financed through government grants and the GET fund. The government grants and the GET fund are quarterly and yearly released to the Polytechnic for its developmental projects. These as they say have contributed tremendously to especially the infrastructural development of the Institution and as a result urge the government to do more. What is interesting in this regard is that

sometimes the Polytechnic is able to earmark some of these funds to undertake other activities that have a bearing on the development of the Institution. They however disclosed that internally generated funds from the Polytechnic's revenue generating unit and school fees collected are also used to finance capital budgets as noted above but this forms a smaller portion of fund usually needed for the above stated objective to be achieved.

This establishes a very important fact that, all the above serves as sources from which the Polytechnic finances its capital expenditure even though funds from the revenue generating unit and school fees constitute a lesser proportion.

The respondents also went ahead to disclose that 40% of the total expenditure budget is allocated to capital expenditure. This is because, according to the Finance Officer capital expenditure normally requires huge amount of financial resources if the benefits are to be fully realized as planned and expected. This budgetary allocation made to cater for capital expenditure is based on the recommendation of the Polytechnic Council and government advice. So this has been the practice from time immemorial. However they noted that it would be reviewed in the near future, but respondents were not certain whether it would be adjusted upward or otherwise.

The respondents as already noted admit that cash budget is prepared by the various departments purposely to maintain the cash balance needed to meet their obligations, to avoid large cash balance and pre-arrange loans accordingly. They indicated that cash

budget is primarily prepared by the departments in order to maintain cash balance needed to meet its obligations. According to these individuals the various departments always have daily commitments that are normally settled on regular basis. Textbooks are usually procured by the Polytechnic for its various departments for their libraries, and departments have been admonished not to delay in payment for these items when they are made available to them else the service being rendered them by the Polytechnic would be abrogated for the departments to procure textbooks themselves without the Polytechnic putting its hand into it. So departments prepare cash budget to ensure that they have sufficient funds in their coffers so as to always take advantage of this service being rendered by the Polytechnic as a whole through the Procurement Board of Ghana. Apart from this the various departments need to have cash at their disposal to purchase stationery and other teaching and learning materials to facilitate teaching and learning at the department levels and in the Polytechnic as a whole. Due to the importance attached to these materials for teaching and learning activities and the adverse implications it can have on the academic work of a particular department the Polytechnic always want to ensure that the departments do not run out of stock. As a result of the above and others cash budget needs to be prepared by the respective departments to be able to maintain the right amount of cash for the settlement of their obligations as and when they fall due.

In the researcher's opinion the main reasons why departments prepare cash budgets are to avoid large cash balances and to maintain the cash balance needed to meet their obligations but the latter is emphasized.

### 4.3 DEPARTMENTAL OBJECTIVES FOR PREPARING BUDGETS

From the respondents, budgets are prepared at the departmental level to assist in the planning of the Polytechnic's activities, to communicate to every member of the Polytechnic the proposed activities for a defined period, to coordinate the activities of the various sections of the Polytechnic in order to ensure harmony and goal congruence, and to enhance participation in decision-making, problem identification and problem solving respectively. Looking at the above responses critically, it clearly shows that all the above are all departmental objectives for preparing budgets in the Polytechnic, however according to them some of the objectives are highly prioritized than others. They pointed out that the most prioritized objective for preparing budgets is to assist in the planning of the Polytechnic's activities.

The next objectives to be prioritized are to coordinate the activities of the various sections of the Polytechnic in order to ensure harmony and goal congruence, to communicate to every member of the Polytechnic the proposed activities for a defined period and lastly to enhance participation in decision-making, problem identification and problem solving. It was emphasized by the respondents that the objective of assisting in the planning of the Polytechnic's activities is of much importance to the various departments due to the numerous activities that the Polytechnic handles within a given operational year.

#### **4.4 BUDGETING PROCESS IN KOFORIDUA POLYTECHNIC**

##### **Steps**

1. Budget Office invites departmental budgets: In April every year the budget committee in collaboration with the budget office sends a circular to all the departments in the Polytechnic instructing them to start preparing their various budgets. Upon completion these budgets are sent to the budget office. These budgets are then collated by the budget office under the supervision of the Finance Officer of the Polytechnic.
2. The Budget Office meets departmental heads to discuss budgets: After the budgets have been collated the departmental heads in the Polytechnic are invited by the Budget Office for a thorough discussion of the budgets particularly the items in them. That is departmental heads at this point in time are made to justify and explain certain budgetary items provided in the various budgets that have been prepared under their watch.
3. Management then meets to discuss the budgets: After budgets have been discussed with the departmental heads the management of the Polytechnic meets again to discuss the budgets to ensure that all anomalies are corrected. This is deemed as one of the most important meetings in the Polytechnic with respect to issues bothering on budgeting and budgetary control activities. Due to how this meeting is perceived, every member of management is mandated to attend so as to get them fully informed of what the School plans to do with regards to its resources within the coming operational year and to solicit their views.

4. Academic Board meets to discuss the budgets: Because budgets prepared mostly relates to issues concerning academics the Academic Board of the Institution meets to discuss the budgets in order to ensure that the interest of students and for that matter academics is prioritized in the various budgets prepared by the respective departments
5. Finance committee (Budget Committee) meets to discuss the budgets: The Finance Committee which happens to be in charge of all issues bothering on budgets meet to discuss the budget finally to streamline things. The Finance committee mainly has members who are budgeting experts and as a result they finally work on the budgets prepared by the departments before the legislative budget is prepared.
6. Preparation of the legislative budget: After the final discussion of the budgets the legislative budget is prepared and sent to the National Council for Tertiary Education (N.C.T.E).
7. Budget is defended: The Polytechnic is now invited by the N.C.T.E to defend the budget. Here they are asked to justify certain items in the budget and why they have included them. After the defence at the National Council for Tertiary Education (N.C.T.E) the budget is sent to the Ministry of Finance and Economic Planning for approval and for funds requested from the government to be released.
8. Management budget is now prepared considering the amount approved by the government for the approval of the Polytechnic Council.

#### **4.5 PROBLEMS AND DIFFICULTIES FACED WHEN PREPARING BUDGETS IN DEPARTMENTS**

The respondents claim that there is lack of management participation in budget preparation, management also does not consider the views of staff when preparing budgets and lastly time allotted for the implementation of budgets is short. As has been indicated already Deans of the various schools do not involve themselves in preparing budgets and do not even supervise departmental budgets prepared to ensure that the right thing is done. They added that departmental heads usually delegate the task of preparing budgets to individuals who support them in the various departments. Suggestions from staff during meetings on budgeting issues are usually not considered and this normally makes them feel less motivated. However the researcher finds all these as problems in budgeting in the Polytechnic but management participation is on the lower side and short time for budget implementation is on the higher side.

It was also revealed by the respondents that preparing budgets is time consuming, full of calculations and too mechanical. In the opinions of the respondents, reasons for saying that preparing budget is time consuming is that sometimes it becomes very difficult to be able to complete budget preparation in time even though the exercise is started or begun in April each year. On the issue of why budget preparation is full of calculations the respondents said the budget preparers are always tasked to use different budgeting methods in arriving at certain items in the budget. The respondents also disclosed that they are always made to follow a particular pattern in preparing budgets. This makes budget preparation more boring in the Polytechnic. It is however noted by the researcher

that the problem of time consuming and numerous calculations involved in budget preparation confront budget preparers in the Polytechnic than any other.

#### **4.6 BUDGET ADMINISTRATION IN THE POLYTECHNIC**

The respondents made it known that there is a budget committee in the Institution but it is commonly known as Finance Committee and this constitutes a twelve (12) member committee. These members are selected based on qualification and experience. The respondents hold this view because, as they explained one can become a divisional head, dean, or a rector when that individual has acquired some qualifications and also has certain level of experience. However as disclosed by them this budget committee has no budget manual that guides the Polytechnic in the preparation of its budgets. According to them guidelines needed for the preparation of budgets are usually provided by the Ministry of Finance and Economic Planning but unfortunately the Institution is normally unable to follow the guidelines strictly because as they said they are not always clear. As a result budgets are mostly prepared based on what budget preparers have learnt from theory and discretion. They however added that they sometimes follow the guidelines amid difficulties for the purposes of defence at the N.C.T.E.

#### **4.7 BUDGETARY CONTROL PRACTICES AND PROCEDURES IN**

##### **KOFORIDUA POLYTECHNIC**

The respondents declared that budgeting control practices is an exercise that goes on in the Polytechnic. Budgeting control practices has been adopted by the Polytechnic as a tool for financial management. As a result of that an appropriate method has been

adopted for implementation in order to ensure that the objective for employing this tool becomes a reality. According to them the method used for practicing budgetary control in the Polytechnic is by comparing actual performance to budgeted to identify variance in order to facilitate remedial action. This confirms the assertion that was made by Borglum (2004). According to him variance is the difference between budgeted and actual and every organization that opts to practice budgetary control should always ensure that it compares its actual to budgeted for that is deemed as the best method if the organization wants to identify variances and to achieve its stated objectives.

Various reports are prepared by the Polytechnic. Reports prepared are the expenditure and revenue reports. As the respondents claim these reports are important to the Polytechnic and as a result both of them are prepared on quarterly basis as recommended by the Ministry of Finance and Economic Planning.

According to the respondents the Budget Committee or the Finance Committee is responsible for remedial action. As already noted by the researcher the Budget Committee in the Polytechnic is commonly known as the Finance Committee and it is this committee that takes responsibility of remedial action. According to the Finance Officer who incidentally happens to be the chairman of the Budget Committee, after monitoring the performance of the various departments using budgeted figures as standards variances are easily identified and it is immediately discussed by the committee members for remedial action to be taken with no hesitation.

The respondents claim that remedial action is taken during and after implementation (both). They disclosed that usually in the course of implementing the approved budgets in the various departments, members of the Finance Committee visit them to find out whether performance is going according to budgeted so as to enable them take remedial action if variances are detected. This exercise is again conducted after the budget has been fully implemented.

On the issue of the effectiveness of the existing variance prevention mechanism, the respondents find it highly effective. According to these individual respondents, heads of departments in collaboration with the Finance Committee take the pain to do in-depth analysis of budgeted and actuals to facilitate the identification of variances for corrective measures to be taken immediately.

## **CHAPTER FIVE**

### **5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This chapter summarizes the information obtained from the study. The chapter is in three parts. The first part summarizes the entire research findings. The second part outlines the conclusion drawn from the research findings while the third section makes recommendations to the Polytechnic as to how best budgeting and budgetary control practices can be improved.

#### **5.2 SUMMARY**

The purpose of this study was to examine the budgeting and budgetary control practices in the Polytechnic. From the study it was found that the Polytechnic has embraced budgeting and budgetary control as a means of planning and control of the Polytechnic finances.

It was revealed that the Polytechnic is under an obligation to prepare its budget to the Ministry of Finance and Economic Planning through the National Council for Tertiary Education (NCTE) to request for funding. This budget is what is theoretically termed as the legislative budget. The study showed that the Polytechnic after receiving government funds, prepares management budget purposely to allocate funds provided by the government among the various departments in the two schools based on budgets that the various departments have prepared.

The income generating unit also prepares budget to enable the unit determine the fees per each student or fee for other services provided. This unit is the unit of the Polytechnic that runs distance courses. The preparation of the budget to some extent helps to ensure that the unit's income covers the running cost.

The main types of budget prepared are expenditure budget and revenue budget. The expenditure budget is made up of the running or recurrent expenditure and capital or development budget. In the preparation of the management budget the budgeting model that is used is the rolling budget type.

On the preparation of budget for funding from the government the Ministry of Finance and Economic Planning provides the necessary guidelines. Budget preparation however has been a headache to many Spending Officers because most of them are not conversant with the computerized system in place for budgeting activities.

The Polytechnic has a budget committee which is commonly known as the Finance Committee which sees to the preparation and implementation of the management budget and other budgets. This Committee initiates most budgeting policies in the Polytechnic for implementation by the various departments.

The Polytechnic however has no budget manual that sets rules and regulations for the preparation of its budgets. As already indicated it normally depends on guidelines on

budget preparation provided by the Ministry of Finance and Economic Planning which according to them are not clear sometimes making it difficult for them to go by it.

It came to the notice of the researcher that there has been an attempt on the part of the Institution to control its budgeted items by comparing actuals with budgeted figures for corrective actions to be taken. Reports from these control activities are sent to the National Council for Tertiary Education every quarter to facilitate the release of subventions for the coming quarter.

Variance reporting is practiced in the Polytechnic. Variance reports are sent to the Finance Committee as and when variances are detected on quarterly basis for remedial actions to be taken.

It must be emphasized that the mechanism in place to deal with variances is highly effective. The above shows that budgeting and budgetary control as a tool for financial management is fully utilized by the Institution however there is more room for improvement.

### **5.3 CONCLUSION**

The importance of budgeting and budgetary control in financial management in any organization cannot be overemphasized. It provides accounting information for decision making especially in large organizations like Koforidua Polytechnic.

Koforidua Polytechnic prepares budget to fulfill its statutory obligations as a management tool for planning and control purposes. Findings indicate that every unit or department within the Polytechnic operates budgeting system. The mode of budget preparation however needs to be improved. The examination of previous two years budgets shows that due care is not taken for its preparation. Initial budget proposals are not defended or justified for review to refine the budgets. Many of the departmental budgets far exceed the total fund sometimes allocated to the entire school.

Even though all respondents interviewed indicated that the heads of departments are responsible for the budget preparation at the departmental level, lack of commitment on the part of them make them delegate that responsibility to the various administrative assistants without the needed supervision.

The Institution operates budgetary control system. The actual income and expenditure are recorded by the account officers after monitoring the performance of the various departments. These reports are collated and sent to the N.C.T.E on quarterly basis for the release of subventions for the coming quarter.

#### **5.4 RECOMMENDATIONS**

For budgeting and budgetary control to be more effective tool for planning and control purposes in the Polytechnic the following suggestions are made;

### **i) BUDGET PREPARATION**

In order to prepare realistic and attainable budgets heads of department must take keen interest in its preparation and implementation. At the moment they are trying their best but can do better. Budgets as they move up the management hierarchy must be refined and at the school level heads of departments should be made to justify their budget taking into account the amount of funds available to that department.

Deans and heads of departments should ensure that budgets prepared aim at improving academic work in their various departments. This can be done by ensuring that students' views are respected at the department level.

### **ii) IN-SERVICE TRAINING**

The Polytechnic should take it upon itself the responsibility in collaboration with the Finance Office to train the budget holders on the preparation of budgets. The budget holders should be familiar with the classification of items in the budget to enable them prepare proper and useful budgets.

Even though budget holders have indicated that computerized system is in place for the preparation of the budget they are not very conversant with using the computer for the preparation of the budgets. This makes budget preparation very difficult which make them very uncomfortable and as a result usually delegate the budget preparation responsibility to their administrative assistants which is inappropriate. It is therefore advisable for them to be trained to be more versed in using the computerized system for budget preparation.

In addition the Polytechnic as a whole can improve upon its budgeting and budgetary control practices by adopting a modern software package to enhance collation of figures and to facilitate timely reporting of variances.

### **iii) BUDGET ADMINISTRATION**

It is imperative and worthwhile for every business entity be it profit or non profit making one to create a unit that would be responsible for budget preparation and anything that has got something to do with budgeting and budgetary control. The regular changes and the dynamism in the financial economy of this modern world calls for a closer look or attention to issues bothering on planning, monitoring and evaluation of performance of every unit of an organization. As a result the Budgeting Unit in the Finance Office though it is doing its best, it needs to be strengthened by equipping the members in that Unit who form the Finance Committee with knowledge in cost and management accounting. If possible every individual personnel in the Budgeting Unit whether he or she is a member of the Finance Committee or not should be helped to have deep knowledge in cost and management accounting. This can be made possible by organizing workshops and seminars for them on the mentioned course.

If the suggestion made above is adopted or adhered to it would go a long way to help them initiate better budgeting policies and also facilitate preparation of useful and appropriate budgets for the Polytechnic, in order to aid the Polytechnic to achieve its main objective of instituting budgeting and budgetary control.

#### iv) BUDGET MANUAL

Budget manual is of much importance when it comes to the preparation of budgets. Thus it is useful in planning and implementing budgets of every organization. It is therefore important to note that every organization such as Koforidua Polytechnic must have one.

The budget manual is a written document which contains all issues in relation to the various aspects of budgeting and budget administration. That is, it sets out the responsibilities of persons engaged in the routine of and the forms and records required for budgetary control. Thus it contains the organizational chart, the details of budget preparation procedures, and account codes for items of expenditure and revenue as well as time table for the process. It is suggested that the Polytechnic's budget manual contain the following:

- A statement of objectives and procedures to be followed in operating the system.
- A statement defining responsibilities and duties of each departmental head both regarding preparation and execution of budgets.
- A statement defining the routine and the procedure for budget making and budgetary control.
- Reports and statement required for each budget period as well as forms and records to be used for the purpose.
- Budget committee membership
- Time schedule or table for all stages of budgeting
- Dates of receipt of budget estimates from the various departments and
- Methods of accounting to be adopted.

If the above stated issues are documented in a booklet which would form the Polytechnic's budget manual, budget preparation would be enhanced rendering it interesting and very effective. This would turn into fruition when these manuals are made available to all personnel including every Spending Officer.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

QUESTIONNAIRE TO ASSESS THE BUDGETING AND BUDGETARY  
CONTROL PRACTICES OF KOFORIDUA POLYTECHNIC

The purpose of this questionnaire is to examine the budgeting and budgetary control practices of Koforidua Polytechnic. The result from the study is purely for academic purpose. You are therefore entreated to provide frank and dispassionate answers to the questionnaire items. You are quite assured that information provided will be treated confidentially.

Section A-Budgeting Practices

Please tick where appropriate.

1a) Does the department prepare a budget?

Yes [ ] No [ ]

b) If no kindly give reasons for not preparing budget

.....

2) If yes, what kind of budget does your school/department/unit normally prepare?

a) Expenditure budget/capital budget/development budget [ ]

b) Cash budget [ ]

c) Recurrent budget [ ]

d) Others, specify.....  
.....

3) Which of the following type of budgeting models do you use?

- a) Incremental budgeting [ ]
- b) Zero based budgeting [ ]
- c) Rolling budget [ ]
- d) Flexible budget [ ]
- e) Fixed budget [ ]
- f) Line item budget [ ]
- g) Planning, programming budget system [ ]
- h) Others, specify.....

4) Are matters relating to capital budgeting taken seriously by your department?

No [ ] Not much [ ] Very much [ ]

5) What are some of the issues that are considered when preparing capital budget in your department?

- a) The amount of money involved
- b) The irreversible nature of capital budgeting decisions
- c) The long term commitment that such investment involves
- d) Others, specify.....  
.....



.....  
.....  
10) What percentage of total expenditure budget is normally allocated to capital expenditure in the Polytechnic?

- a) 10%
- b) 20%
- c) 30%
- d) 40%

e) Others, specify.....  
.....

11) Why does your department prepare cash budget if it does?

- a) For the department to be able to pre-arrange loans to cover any anticipated cash shortages before they are needed.
- b) For management to avoid a cash balance that is too large
- c) To enable the department maintain cash balance needed to meet its obligations
- d) Others, specify.....  
.....  
.....

12) Which area serves as a major source of cash inflow?

- a) Students' fees
- b) Donations
- c) Investment activities by the department
- d) Others, specify.....  
.....  
.....

13) Does your department have specific objectives for preparing and operating budgeting system?

Yes [ ] No [ ]

14) If yes, what are they?

- a) To assist in the planning of the Polytechnic's activities
- b) To communicate to every member of the Polytechnic the proposed activities for a defined period.
- c) To coordinate the activities of the various sections of the Polytechnic in order to ensure harmony and goal congruence.
- d) To enhance participation in decision-making, problem identification and problem solving.
- e) Others, specify

.....  
.....

15) Among the objectives which of them is highly prioritized by your department?

- a) To assist in the planning of the Polytechnic's activities
- b) To communicate to every member of the Polytechnic the proposed activities for a defined period.
- c) To coordinate the activities of the various sections of the Polytechnic in order to ensure harmony and goal congruence.
- d) To enhance participation in decision-making, problem identification and problem solving.

16) What problems do you face when preparing budget in your school/department/unit.

- a) Lack of participation by management
- b) Reluctance to consider the views of some members of staff by management
- c) Time set for implementing the budget is normally too short
- d) Others, specify.....  
.....

17) Please indicate the steps or activities in budgeting process in the Polytechnic

Steps in budgeting

Steps	Activities
1	
2	
3	
4	
5	
6	
7	
8	
9	

18) Does the Polytechnic have standard forms or worksheet for the preparation of budget?

Yes [ ] No [ ]

19) If no, indicate the format used in the budget preparation.

.....

20) Do you use computer based programme in budgeting?

Yes [ ] No [ ]

21) If no, what technique do you use to prepare the budget?

a) Manual

b) Others, specify.....

22) Does the method of budget preparation pose any difficulty?

Yes [ ] No [ ]

23) If yes, what are some of the difficulties faced?

a) Time consuming [ ]

b) It involves a lot of calculations [ ]

c) It is too mechanical [ ]

d) Others, specify

.....

24) During which month of the year do you usually begin the preparation of your budget?

a) April

b) June

c) August

d) October

e) Others, specify.....

25) Is there any special reason for selecting a particular month?

.....

.....

.....

.....

Section B-Budget Administration

Please tick where appropriate.

26) Does the Polytechnic have a budget committee?

Yes [ ] No [ ] Not sure [ ]

27) How many members form the committee?

a) 5

b) 7

c) 9

d) 12

e) Others, specify.....

28) Upon what criterion are they selected?

a) Based on qualification

b) Long service (experience)

c) Based on contributions to budgeting in one way or the other

d) Others, specify.....

29) How many years should one serve as a member of this committee?

a) One year

b) Two years

c) Three years

d) Four years

e) Others, specify.....

30) Does the Polytechnic have a budget manual?

Yes [ ] No [ ]

31) If yes indicate the main issues contained in the budget manual.

a) Budget policies and guidelines [ ]

b) Budget time table [ ]

c) Organizational chart defining functional responsibilities [ ]

d) Budget structure, codes and descriptions of new forms introduced [ ]

e) Others, specify

.....  
.....  
.....

32) Is the manual updated periodically?

Yes [ ] No [ ]

33) If yes, how long does it take for the manual to be updated?

a) A year

b) Two years

c) Three years

d) Others, specify.....

34) Are the guidelines and objectives set in the manual usually followed and achieved respectively?

Yes [ ] No [ ]

Section C-Budgetary control practices and procedures

Please tick where appropriate.

35) Do you undertake budgetary control activities?

Yes [ ] No [ ]

36) How do you monitor actual revenue and expenditure with budget?

a) By comparing actual results with budgeted periodically

b) No monitoring activity is done

c) Others, specify.....

37) Do you prepare reports on actuals and budgeted?

Yes [ ] No [ ]

38) What type(s) of report(s) are usually prepared?

- a) Expenditure report
- b) Revenue report
- c) Others, specify.....

39) How often is the report prepared?

- a) Weekly
- b) Fortnightly
- c) Monthly
- d) Quarterly
- e) Others, specify

40) To whom is the report communicated?

- a) Budget Committee
- b) Budget Officer
- c) Others, specify.....

41) Who is responsible for remedial action when negative variances are detected?

.....  
.....

42) When is remedial action taken?

- a) During implementation

b) After implementation

c) Both

e) Others, specify

43) How effective is the existing variance preventive or reduction mechanism?

a) Highly effective

b) Not much effective

c) None

44) Do remedial actions taken normally achieve their purpose of avoiding recurrence?

Yes [ ] No [ ]