BUDGETARY CONTROL IN COMMERCIAL BANKS:

A STUDY OF SELECTED BANKS IN NIGERIA.

BY

SILVA SAAJI MAGDALENE

A DISSERTATION SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA, NIGERIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE (ACCOUNTING & FINANCE).

DECLARATION

I hereby declare that this dissertation was carried out by me under the supervision of Mr. A.B.D. Wato, who was my Supervisor. To the best of my knowledge, this dissertation has never been submitted either in Ahmadu Bello University, Zaria, Nigeria or any other Institution for the award of a degree. The sources of all quotations have been acknowledged.

However any mistake contained in this work is solely my responsibility.



SILVA SAAJI MAGDALENE

October 1996

CERTIFICATION

This dissertation entitled "Budgetary Control in Commercial Banks: A Study of selected banks in Nigeria" by Silva Saaji Magdalene meets the regulations governing the award of the degree of the Master of Science in Accounting & Finance of Ahmadu Bello University, Zaria, Nigeria and is approved for its contribution to knowledge and literary presentation.

..... 6/7/97
CHAIRMAN, SUPERVISORY COMMITTEE DATE

..... 6/7/97
MEMBER, SUPERVISORY COMMITTEE DATE

....
MEMBER, SUPERVISORY COMMITTEE DATE

..... 6/7/97
HEAD OF DEPARTMENT DATE

..... 16/12/00
DEAN, POST GRADUATE SCHOOL DATE

DEDICATION

This dissertation is lovingly dedicated to
my parents, Mr. and Mrs. Silva,
my sisters - Zaina and Shobha -
and my brother Sabu.

ACKNOWLEDGEMENTS

I am most grateful to Almighty God for his numerous blessings and for seeing me through the completion of this dissertation.

I wish to express my sincere gratitude to my Supervisor and Head of Department, Mr. A.B.D. Wato who challenged me to think about the topic of the dissertation and led me to understand the research process in an enormously interesting way. I have benefitted from his wealth of knowledge and vast experience in the academic field. I am indeed very grateful to him for reading each and every aspect of this dissertation and offering helpful criticisms and valuable suggestions. I am profoundly grateful to him for all his assistance.

I am also grateful to the Branch Managers and Accountants of the following banks:- U.B.A. Zaria, Union Bank Zaria, Savannah Bank Zaria and Afribank Zaria - for providing me with the information and data needed for this work. I wish to thank in particular the following persons for their assistance: Alhaji A.M. Lawal, Mr. Ayo Akanji, Mallam Rufai Bangudu and Mallam Abba Gana.

My special vote of thanks goes to all who assisted me in one way or another during the research process, especially my colleagues in the Department of Accounting & Finance, Kaduna State Polytechnic, Zaria and my friends, Mrs. Jamila Yusuf and Mallam Bello Suleiman.

A special note of acknowledgement is extended to the staff of the Computer Centre, Kaduna State Polytechnic, Zaria, especially Miss Grace Owotoomo for putting the work in printed form.

Finally, I wish to express my deep appreciation to my family. Throughout the research process, they continually exhibited the qualities of love, patience and support which enabled me to carry through my intention to complete this dissertation. I dedicate this dissertation to them for their support.

ABSTRACT

Budgeting is a powerful management tool which is used to accomplish four major objectives: planning, coordination, motivation and control. The budget is a planning tool that represents the expected results of operations for the coming year, and thus it is a way of formulating and expressing in monetary terms the objectives of an organization and the operational plans for achieving those objectives.

For budgets to be effective, budgeting must be accompanied by control. Budgetary control involves the periodic comparisons of planned objectives and actual performance. The management can then take corrective action in areas where significant differences between the budget and actual performance are reported. A budget is therefore a control tool.

An important part of budget preparation is consideration of the importance of goal definition, individual aspirations and goals. The purpose of a budget in budgetary control is to specify the standard of acceptable performance in the banks. When a bank sets standards of acceptable performance, it has to be done with good judgement or else motivation may be misplaced. If a budgetary control system is not accepted by the

people who have to operate it, they may hamper and obstruct the information flow so that realistic planning and control decisions will be difficult to take. Therefore, for the budgetary process to be successful, it requires top-management support, co-operative and motivated middle management staff and well-organised reporting systems, who will in turn direct lower level management staff in their duties towards achieving the goals set out in. the budget for the benefit of the bank.

A study of budgetary control procedures adopted by commercial banks has been undertaken in this research work. In this study, the problems associated with budgetary control in commercial banks have been identified. Solutions to these problems of budgetary control have been proffered in order to improve the situation, so that commercial banks will have an efficient and effective budgetary control system.

TABLE OF CONTENTS

		Page
Title Page		i
Declaration		ii
Certification		iii
Dedication		iv
Acknowledgements		v
Abstract		vii
Table of Contents		ix
List of Appendices		xi
	CHAPTER 1 : INTRODUCTION	
1.1	Overview	1
1.2	Statement of the Problem	3
1.3	Objectives of the Study	4
1.4	Significance of the Study	5
1.5	Scope Delimitation	7
1.6	Definition of terms	8
1.7	Organization of the Remaining Chapters	11
	CHAPTER 2 : LITERATURE REVIEW	
2.1	Overview	12
2.2	The Objectives of a Budgeting System	14
2.3	The Process of Budgeting in an Organisation	20

KASSIM IBRAHIM LIBRARY

2.4 The Budgetary Control Procedures Employed 30

2.5 The Implementation Process of Budgets 42

2.6 The Performance Reporting Aspect and Evaluation of Budgets 51

2.7 Historical Background of the Selected Commercial Banks66

2.8 Budgetary Operations in Commercial Banks 72

CHAPTER 3 : RESEARCH METHODOLOGY

3.1 Overview 78

3.2 Research Method Adopted 79

3.3 Sample Size and Expected Data to be collected 80

3.4 Method of Data Analysis 82

CHAPTER 4 : DATA PRESENTATION AND ANALYSIS

4.1 Overview 84

4.2 The Budgetary Process 85

4.3 Presentation and Analysis of Data Collected 92

4.4 Interpretation of Data 100

CHAPTER 5 : SUMMARY,CONCLUSION AND RECOMMENDATIONS

5.1 Summary 123

5.2 Conclusion 126

5.3 Limitations of the Study 127

5.4 Recommendations 128

BIBLIOGRAPHY 135

APPENDICES 139

LIST OF APPENDICES

		Page
Appendix 1:	Questionnaire I	139
Appendix 2:	Questionnaire II	144
Appendix 3:	Budget Worksheet for Income	145
Appendix 4:	Budget Worksheet for General Expenses	149
Appendix 5:	Budget Proposal for Capital Expenditure	154

CHAPTER ONE

INTRODUCTION

1.1 OVERVIEW

In commercial banks, budgeting is widely used in performing managerial planning and control responsibilities.

A budget can be defined as a quantitative expression of a plan of action prepared in advance of the period to which it relates. It is a detailed statement prepared in advance showing revenue expected during a given period and expenditure to be financed with such anticipated revenues during the same period.

A budget is central to the operations of organizations, including commercial banks. The adoption of a budget, the provision of a basis for appropriate budgetary control in the accounting system and the requirement for the inclusion of budgetary comparisons in the appropriate financial statements is fundamental in the accounting and reporting aspect of organizations.

Budgetary control involves the establishment of budgets relating to the responsibilities of managers of organizations to the requirements of a policy, and the

continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision.

Accounting is an important information system in any organisation, and information is the key to decision making, planning, coordinating, control and even evaluation. Accounting pictures the whole organisation and links other information systems in order to achieve the goals and objectives of the organisation.

The normal accounting process entails recording transactions which have actually taken place, while the incorporation of budgetary accounts means projecting accounting records into the future. This is essential for the purposes of comparison and control. That is comparing the past and the future and ensuring that targets are met.

The use of the budget to control actual transactions of the organisation is the executional phase of the budget. Policies and actions are based on the comparative outcome of budgeted amounts and actual transactions, and budgetary control is used to bring about the desired outcome. In an organisation, this entails variance analysis for control and evaluation. Budgetary control is exercised by using personal evaluation and periodic performance evaluation reports.

1.2 STATEMENT OF THE PROBLEM

In the banking sector, a high degree of orderliness must be maintained in order to gain the trust and confidence of its customers. Once there is no trust, the confidence is gone.

In the past, there was a high degree of orderliness in the banking practice, until the advent of liberalization which saw the licensing of more than seventy (70) banks between 1986 and 1990. The increase in the number of banks from 40 in 1985 to 116 in 1995 has made the job of the supervisory authorities -Central Bank of Nigeria (C.B.N.) and Nigeria Deposit Insurance Corporation (N.D.I.C.) - very difficult. This problem is even compounded by acute shortage of skilled manpower.

At present, a good number of banks are in various stages of distress with 4 banks already liquidated, 3 banks about to be merged and the management of 17 others taken over by the Central Bank of Nigeria.

There are many contributory factors which cause a firm to be placed in a "distressed" position, such as bad credit management policies and fraudulent practices by bank staff. However, the adoption and implementation of proper budgetary control procedures in the banking sector will go a long way in improving the banking sector and stemming the tide of distress.

In order to obtain a clear understanding of the problem under study, this research will be directed towards providing answers to the following questions:

i) How are budgets prepared and implemented in commercial banks?

ii) What are the forms of budgetary control procedures observed in commercial banks?

iii) What are the post-implementation budget review techniques adopted by commercial banks to evaluate budgets?

iv) What are the problems associated with budgetary control in commercial banks?

v) What are the solutions to these problems?

1.3 OBJECTIVES OF THE STUDY

The increasing complexity of business operations and the ever-changing conditions of the business environment - social, economic, technological and political developments -pose a great challenge to the banks and the banks have to look for ways to work with these challenges. Therefore the management of the bank has to have a plan of action as a means of generating profit.

In a rapidly changing environment, as is exhibited in the Nigerian banking scene, banks have to make changes to keep up-to-date. These changes may await events or anticipate them. Anticipating and preparing for change

simply underlines the basic need for budgeting, that is, determining the aims and objectives of the bank in the light of probable events that may occur in the banking environment and thereby making plans and budgets for achieving them.

The objectives of this study will be to specifically:

i) examine the concept and process of budgeting and the implementation aspects of budgeting.

ii) determine the effectiveness of budgetary control procedures.

iii) identify the budgetary control techniques and procedures used by banks with a view to understand the present shortcomings and establish the need for adequate and standard budgetary control techniques in banks.

iv) to determine if the present budgetary control techniques adopted in the banks are adequate, and if not, if the present practice can be improved upon.

v) analyze the achievements of the budgetary control system in operation by the preparation of performance evaluation reports by using variance analysis.

vi) make recommendations based on the findings of this study.

KASHIM IBRAHIM LIBRARY

1.4 SIGNIFICANCE OF THE STUDY

The budgetary control process is an integral part of

both planning and control activities of a bank. Budgeting concerns plans for the future, the implementation of these plans, and monitoring activity to ascertain whether it conforms to the plan. It is not just about controlling performance alone. As such, an in-depth study of budgetary control in commercial banks is very significant and relevant because of the various contributions to knowledge this study can make and also to the Nigerian economy as a whole.

There is a lot of literature on budgetary control in the banking industry as a whole. However, a survey of literature indicates that there is very little literature specifically written on budgetary control in the commercial banking industry. As such a gap in knowledge exists. This study will therefore attempt to narrow down this gap in knowledge.

The study of budgetary control is very significant and relevant to commercial banks, because any bank that does not operate a proper budgetary control system will sooner or later face serious financial problems. This may then lead to bankruptcy and the eventual closure of the bank.

A study of the budgetary control system in commercial banks will be of benefit to students of accounting and finance as it will provide an insight into the practical techniques involved in the operation of a

budgetary control system. This study will also highlight problems involved in budgetary control and suggest problem-solving skills relating to budgeting and budgetary control. It is hoped that this study will benefit both students and academicians in general.

This study is also timely because it comes at a time when there is a growing concern in Nigeria for an overhaul of the banking sector to meet with the changing needs, financial development and sophistication of the Nigerian economy.

The banking industry today is a product of activities of government, its supervisory arms [ie. Central Bank of Nigeria (C.B.N.) and Nigeria Deposit Insurance Corporation (N.D.I.C.)] and customers and society itself.

This study on budgetary control in commercial banks will proffer possible solutions to problems associated with budgetary control and when such suggested solutions are applied by the banks, it will assist in reducing the problems encountered in the banking industry and with the resultant effect of helping to revamp the Nigerian economy.

KASHIM IBRAH

1.5 SCOPE DELIMITATION

This study is aimed at studying the operations of a budgetary control system in commercial banks and identifying the problems related to it. The study will

also provide solutions to the problems encountered in order to ensure proper implementation of budgets in commercial banks.

The data will be collected from selected commercial banks viz.,United Bank for Africa PLC (U.B.A.), Union Bank PLC, Savannah Bank PLC and Afribank PLC. The findings of the study will be arrived at after considering the various factors peculiar to each of the selected commercial banks. The findings will also serve as a guide in the formulation and proper implementation of an effective budgetary control system in other commercial banks.

KASHIM IBRAHIM LIBRARY

1.6 DEFINITION OF TERMS

In this study, certain terms have been used, and for better understanding of these terms, given below are the definition of these terms:

Budget - An itemized estimate of the operating results of an enterprise for a future time period.

Goals - Statements that provide direction to the organisation over long periods of time. Goals are established by top management after reviewing the environment in which the organisation operates and the skills and abilities which the organisation possesses.

Objectives - Objectives represent specific targets that are to be achieved by a specified data. They represent the means by which the organisation will achieve its goals.

Programmes - Programmes represent specific activities to achieve the organisation's objectives. Approved programmes are the basis for the preparation of budgets.

Goal Congruence - The relationship between an individual's goals and the organisation's goals. If the individual in pursuing his or her goals at the same time aids in the organisation attaining its goals, goal congruence is said to exist.

Management by Exception - A concept that aids managers in focusing attention on the most important problems. Exception reports highlight the differences between actual and budgeted results and thus direct attention to potential problem areas.

Budget Committee - A group of top level executives representing the major line functions, who serve as a consulting body in formalizing the budget.

Contribution Margin - The arithmetic difference between revenue and variable costs, which represents the amount available first for meeting fixed costs and then for contributing toward profit.

Control Process - The control process of a budget consists of three inter-related functions: a) an explicit statement of plans, b) the measurement of actual performance, and c) the feedback of information to appropriate managers.

Control System - A control system of a budget includes people, resources and procedures combined in such a way as to promote the attainment of organizational goals.

Master Budget - A comprehensive budgeting plan composed of all budgeting schedules, including financial budgets, operating budgets and special - decision budgets.

Financial Budget - Formal projections of expected cash receipts, disbursements and budgeted financial statements.

Operating Budget - Formal projections of expected primary activities, such as sales, production, purchasing and labour scheduling.

Special-Decision Budget - Formal projections of information used to support special decisions, such as those concerned with inventory levels,economic order quantities, capital budgets or feasibility studies.

Continuous Budgeting - A method that requires the budget for the next fiscal year (four quarters) to be revised and updated at the end of each quarter.

Performance Reporting - Technique used to report the results of operations. Operating results are organized and

presented according to an individual's ability to control an item and in such a way as to compare budgeted results with actual results.

1.7 ORGANIZATION OF THE REMAINING CHAPTERS

The remainder of this study is organized into four chapters. Chapter Two reviews the existing literature on budgeting, the budgetary control procedures and its implementation. In addition, the performance reporting aspect and the evaluation of budgets will be looked into in this chapter.

Chapter Three describes the manner in which the research is to be carried out and the expected data to be collected from the selected firms.

In Chapter Four, the data collected from the selected commercial banks will be presented and analyzed. Also, an in-depth study of the data will be done to interprete the data collected. This is in order to evaluate the budgetary control process that is in operation in the selected commercial banks.

Chapter Five, the concluding chapter, will give suggestions and proffer solutions to problems encountered in budgetary control in commercial banks. This chapter will also consider further areas of study that can be looked into in order to develop the field of budgetary control.

CHAPTER 2

LITERATURE REVIEW

2.1 OVERVIEW

A budget is a comprehensive quantitative plan for the utilization of an entity's resources for some specific time period. The budget entity must be carefully defined to ensure that the specific activity, project or function is represented by the budget. The amount of detail provided in the budget is determined by the information needs of the user.

Budgets force periodic planning, improve coordination and communication, and require quantification of plans. In addition, a budget provides a performance measurement framework,creates cost awareness and promotes goal orientation.

Planning and control are the two basic functions of budgeting. Planning involves the entire budget development process. Control is exercised by comparing actual results with budgeted data. The reporting process alone does not ensure control, it merely provides performance measures. Control should involve tying budget performance to the organization's reward structure.

The total budget package for an organization is called the master budget. It includes the operating budget and the financial budget. The operating budget describes the expected results of future operations of the organization. The financial budget

includes budgeted capital expenditure, cash flows and balance sheets. In addition, special budgets may be prepared to suit the needs of management and provide help in preparing the operating and financial budgets.

In order to ensure the success of the budget, the organization should link rewards to multi-dimensional measures of long-term performance. Top management must be committed to the budgeting system and work diligently to make it succeed.

Budgets should not be imposed on the employees of the organization, but rather should be developed with the input of managers, who have budget responsibility. To avoid inflexibility, budget masking, inefficiency and game-playing, budgets should never be used purely as pressure devices.

The importance of human behaviour in budgeting cannot be overemphasized. Budgeting succeeds only when employees are sympathetic to its aims, cooperative in working to attain those aims, and conscientious in their performance. If budgets are properly understood, they can do much to help management advance its objectives.

It has to be recognized that budgeting like all other constituents of corporate planning is not simply a tool of management but is an important function of management.

2.2 THE OBJECTIVES OF A BUDGETING SYSTEM

Business survival depends on carefully planned operations. Business planning involves estimating the future costs of all activities, including- manufacturing,marketing,administrative and service functions. These estimated costs, also called budgeted costs,enable managers to measure performance, control actual costs, and achieve organizational goals. In well managed organizations, planning is formalized into a budgeting process. The resulting projections address every aspect of future operations.

Actual costs are identifiable, measurable and verifiable. Often people believe that costs of the immediate past are the best indicator of costs in the near future. Yet, actual costs do not provide a complete picture of a firm's performance or a measure of how well it succeeded in achieving its goals. Performance benchmarks allow firms to compare actual costs with estimated costs.

The objectives of a budgeting system is to provide a blue-print or a plan of operations for the organization. According to Heitger (1992:288), the objectives of a budgeting system in an organization are as follows:

i) To accomplish periodic planning requirements.

ii) To foster coordination, cooperation, and communication.

iii) To force managers to quantify their plans.

iv) To establish a framework for evaluating and controlling performance.

v) To create an awareness of the cost of operating a

business.

vi) To satisfy legal and contractual requirements.

vii) To motivate employees by orienting activities toward organizational goals.

Each of the above mentioned objectives of a budgeting system will be discussed in detail below.

i) Periodic planning: Often managers in an organization feel they are so busy running the day-to-day operations of the company that they do not have time to plan. However, at least once a year, they must direct their attention toward the future. They must analyze their operations and determine how future events will affect the achievement of their own departmental objectives and contribute toward the overall organizational objectives. The analysis of the future provides a better plan of action for each manager in the organization.

Few intended objectives are achieved without planning. In business, planning focuses on the efficient allocation of scarce resources. Planning is used to coordinate the efforts of many people to achieve organizational goals. Budgeting provides the framework by specifying measurable periodic objectives for each phase of planning.

Periodic budgeting do not ensure success; the plan must also be executed. But budgets do guide operations, and serve as benchmarks for comparing planned performance with actual results.

ii) Coordination, Cooperation and Communication: If members of an organization acted independently, each free to develop and execute individual plans, there would be little chance of achieving organizational goals. The formal budget integrates the plans of various facets of the organization. The budgeting process is a vehicle for the exchange of ideas and coordination of plans among all relevant parts of the organization.

The budgeting process should also help to point out any inconsistencies among the objectives and programs of each area and how each area contributes towards the objectives of the organization. The need to coordinate the plans of various organizational segments should foster communication among managers. When the budgeting process discloses possible problems, organizational units must work together to find a solution.

Budgets are a form of communication that inform each manager of what other managers have agreed to do. They also inform managers of what resources will be available to carry out their programs.

iii) Quantification: Quantifying the budget enables managers to compare the costs and benefits of projects to evaluate the most appropriate allocation of resources. Quantitative measurement of costs and benefits may be difficult for some activities. For example, costs of an advertizing campaign are easy to measure, but the benefits such as increased sales and an improved company image are difficult to quantify.

Despite the difficulties, resource allocation decisions require some quantification of both costs and benefits of the projects under consideration, whether they are being budgeted by a non-profit organization or a business entity.

A budget therefore represents, in measurable quantities, a plan of action to achieve the organization's objectives. Also, approved budgets allocate resources and authorize managers to take actions necessary to achieve their objectives.

iv) Performance Evaluation: Since budgets are management's estimates of future operations, they also serve as measures of acceptable performance by the business entity. One commonly used measure of managerial performance is the comparison of actual performance with expected performance as expressed in the budget. The budget sets expectations and gives managers the basis for monitoring their own performance.

It is more accurate, informative and fair to measure current performance against a budget - a written statement of what was expected in the future, rather than against a vague expectation or against results of prior years when conditions may have been different.

To adequately evaluate performance, management needs to establish what can be expected. These expectations are expressed in the budget.

v) Cost Awareness: Many managers tend to be unaware of the cost implications of their decisions and activities. Marketing managers may concentrate on increasing sales, production supervisors may focus on volume and/or quality of products; and engineers may be preoccupied with product design improvements. It becomes easy to overlook costs and cost-benefit relationships.

At budgeting time, however, managers must think in terms of costs and benefits as they evaluate projects and activities. This cost awareness provides the common language among the various functional areas of an organization.

vi) Legal and Contractual Requirements: Many non-profit organizations are required by law to prepare periodic budgets that, when approved, become strict guidelines directing decision-making.

Although many businesses have no legal budgeting requirements, many enter into contractual agreements that require budget preparation. Loan agreements or licensing arrangements may require organizations to submit periodic budgets to the entity loan funds or operating licenses.

KASETSART UNIVERSITY LIBRARY

vii) Goal Orientation and Employee Motivation: To budget effectively, formal goals must be established. Resource allocation decisions should be based on the organizational goals and objectives.

Top management provides the motivation and the overall framework which defines organizational and individual success. Optimally, the organizational goals will not only result in the success of the organization, but will also motivate individuals to meet their own professional goals. The motivational dimension of budgeting can be achieved by establishing achievable operational goals.

Each major unit of the organization will further refine the organizational goals by developing specific goals that directly relate to the organizational goals. Divisions within each organizational unit also develop operational goals that are specific to their operations. These operational goals are stated in measurable terms.

A budget plays a potential role in motivation because of its goal-setting properties. Goal setting is related to performance. As individuals set higher performance goals, actual performance levels generally increase.

Using budgets to measure performance encourages professional behaviour that is in line with organizational goals. This goal-congruence is a powerful dimension of budgeting that usually leads to success and mutual satisfaction by organizations and their employees. Organizations that understand the behavioural implications of budgeting become more efficient and effective.

2.3 THE PROCESS OF BUDGETING IN AN ORGANIZATION

Budgeting is designed to give employees of an organization explicit information in regard to the level of performance expected of them. Through the budget, top management communicates its expectations to lower-level employees, so that all members of the firm may understand the goals and coordinate their efforts to attain them.

Preparing a budget demands the joint efforts of all executives involved with setting goals and devising the policies and activating the procedures needed to implement the goals. More often, the responsibility for preparing and distributing the budget is delegated to a budget committee.

The budget committee: Membership of the committee will vary between organizations, but would normally include people from various functions of the firm.

In many organizations, the budget committee is frequently composed of several key executives from various segments of the organization who represent the sales, production and finance functions etc.

The procedures followed by the budget committee in developing the budget are largely determined :

a) by the authority they have over the final budget and

b) by the amount of participation they allow from others within the organization.

The authority of the budget committee is determined by the philosophy of the top management. Top management may have a predetermined profit objective in mind and will look to the budget as a means to accomplish it. The profit objective may be stated in a variety of ways, such as a rate of return on net assets, earnings per share, or a specific amount of net income. These profit objectives may be based on operating results of previous years adjusted for expectations about the coming year, or they may be based upon some desired level of profitability. When top management has a predetermined profit objective, the budget committee must recognize it and develop a budget that will produce the desired objective.

If top management has no specific profit level in mind, the budget committee must first develop some notion about what is a fair and reasonable expectation for the budget period. Without this, the budget process often turns into a "game" and much of the benefit is lost.

A budget officer, usually the Accountant, is responsible for organizing and administering the budget. He is to ensure that all necessary budget estimates are received by the committee revised in the light of any additional information obtained by the committee.

In some organizations, the budgeting procedure includes participation of employees and administrators at all levels of operations. Opinions and estimates are sought and this type of budgeting is called participative budgeting.

Many authorities believe that participative budgeting fosters cohesiveness and strengthens motivation among employees. However, in some organizations, budgeting executives establish goals and determine means for accomplishing them without consulting lower-level employees.

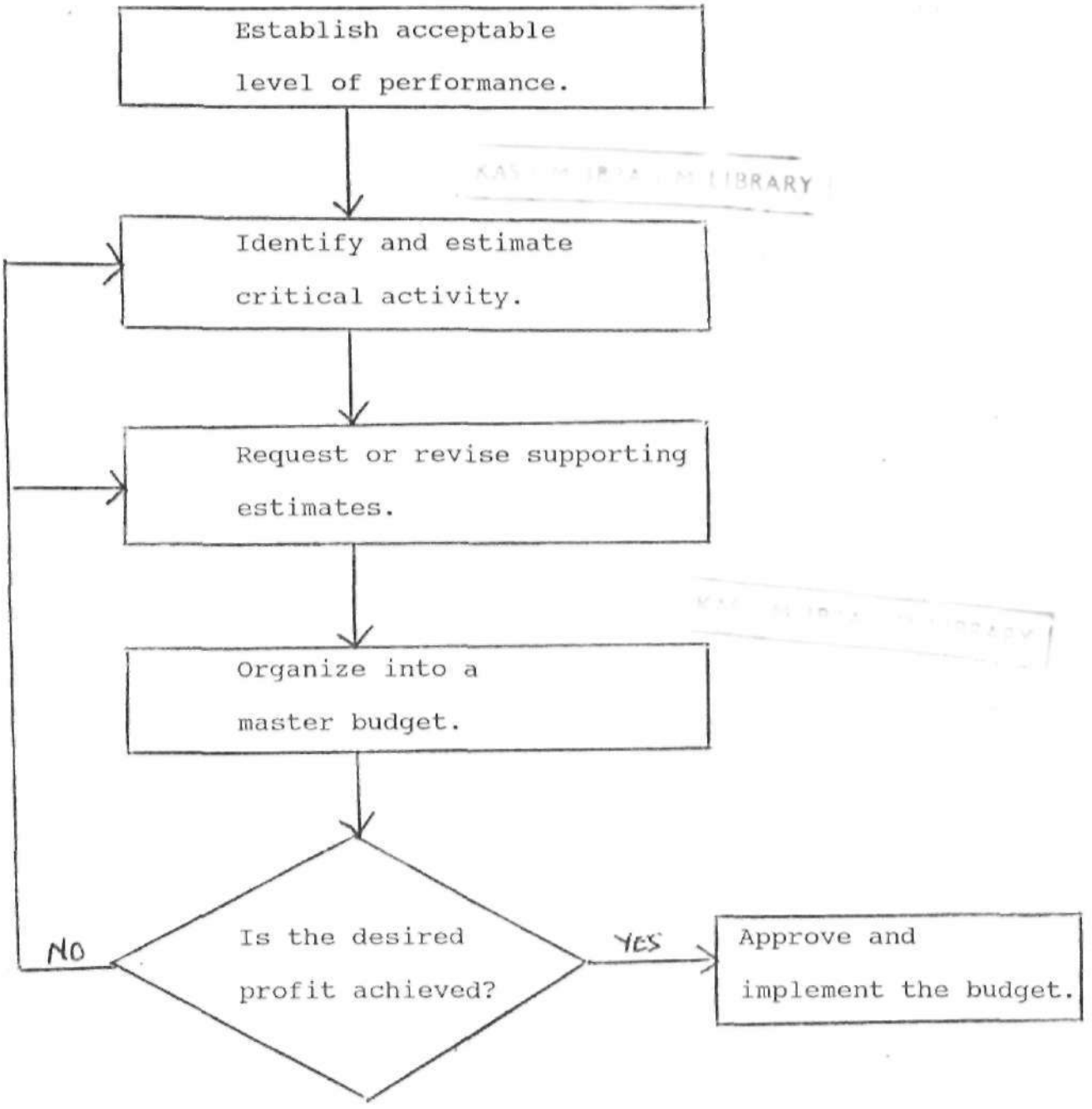
The budget is developed in a step-by-step process, but it may take several iterations before the final budget is acceptable. Figure 2.1 illustrates the steps that are followed in developing a budget. (See Figure 2.1 on page 23).

If an organization is to attain its long-run goals, the operations of all its departments must mesh. Budgets compel managers to examine the relationships between their own operations and those of other departments, and in the process, to identify potential bottlenecks or weaknesses.

The first draft of a budget often fails to produce a perfect meshing of results. Some imbalances will be discovered and these must be corrected before the budget set in final form. Everyone affected by the imbalance should be consulted when the budget is revised.

The planning and budgeting process must add value to the management time invested in it. According to Newing (1994:29), in some organizations, too much time is spent fruitlessly in budget iterations and discussing current-year variances, and not enough on finding ways to meet next year's targets.

FIGURE 2.1 **FLOWCHART OF ACTIVITIES IN DEVELOPING A BUDGET**



SOURCE: Cost and Managerial Accounting by Cherrington J.O.(1985), pg 127.

A good budget, according to Cherrington (1985:127) gives managers enough flexibility to accommodate their plans and operations to unexpected situations.

The procedures adopted by an organization for the preparation of budgets will take place against a background in which two factors require consideration, that is i) the limiting factor and ii) the time period factor. These two factors will be discussed in detail below.

i) **The limiting factor**, sometimes known as the key factor or principal budget factor, effectively limits the activities of an organization. It may be customer demand, production capacity, shortage of labour, materials, space or finance. Because such a constraint will have an effect on all plans and budgets, it must be identified and its effect on the budget carefully considered.

The organization must identify their "critical activity". This is the area of the business or activity that limits their productivity or profitability. An organization can produce all the units or services they want, but finding someone to buy them at a price that provides a reasonable return on their investment is the limiting factor.

Emphasis should first be placed on estimating the volume of the critical activity. This estimate is then used by other areas of the business to develop the supporting functions. These estimates are brought together to develop a budget. The resulting profitability is compared to the desired profitability. If the

desired profitability is achieved, the budget is complete. If it is not achieved, estimates are changed and the budget is revised. Several iterations are often required to obtain a satisfactory budget.

ii) **The time-period factor** is the second factor. Budgeting ia related to a specific period of time. The general process of budgeting breaks down long-range plans and objectives which were prepared for,say, the next five years, into shorter operational periods normally of one year. Typically, these are sub-divided into monthly periods for control purposes. Budgets can be prepared for any length of time.

One approach to the budget period is to prepare a budget for the organization's business year. With this approach, a budget for the next business year is completed just before the start of the business year and used for comparisons throughout the year. As the end of the business year is approached, a budget for the next year is prepared, but there may be only one or two months of the old budget left before the new budget is prepared.

Another approach which is used by many organizations is called a **rolling budget.** At the end of each month, the results of the previous months operations together with any new information on changes in business conditions are used to revise he budget for the next 11 (eleven) months and to prepare a budget for one additional month beyond, so that the budget always covers the next 12 (twelve) months into the future; each month the budget "rolls" forward one

month by adding one month to replace the month just past. The advantage of the rolling budget is that it makes planning a continuous activity. Also, the organization always has a budget for 12 months into the future. Either way,the steps in preparation of the budget are the same; the only difference is the time period to which the steps are applied.

An essential pre-requisite for the making of plans and budgets is the **preparation of forecasts.** A forecast is a prediction of future events which are expected to happen, whereas a budget is a planned series of actions to achieve a given result.

Forecasting is a technical activity, usually assigned to technically trained staff specialists. Its purpose is to predict a probable outcome from a given set of circumstances for a specified period in the future. A forecast rests on specified assumptions made by the forecaster. Forecasting often provides some of the basic data that are useful in the planning process.

In contrast, planning is a fundamental managerial activity (as opposed to a technical staff activity) that includes specific decisions about the objectives, goals and strategies of the organization.

The three main forecasting problems concern difficulties in recognizing trends and patterns, in comparing different time periods, and in predicting the influence of various external changes.

For example, slowly emerging trends can be difficult to measure, and interpreting at which point in the business cycle the

business or economy is, presents problems. Similarly, any appraisal of past results must take account of factors which distort the comparison of one month with another - holidays, stoppages, strikes etc. Many external factors will affect the market for a company's products such as political and economic changes, customer habits and opinions, competitors' actions, technological changes etc.

Once the forecasts have been derived, the budget committee will oversee the preparation of the budget. It should be noted that, the types of budget and the extent of the budgeting activity vary considerably from organization to organization. In smaller organizations, there may only be a sales forecast, a production budget and a cash budget. Larger organizations generally prepare a master or comprehensive budget.

A **master budget** consists of at least three types of budgets:

i) operating budgets
ii) financial budgets and
iii) special - decision budgets.

Operating budgets deal with primary activities of the organization, such as sales, production, purchasing and labour scheduling.

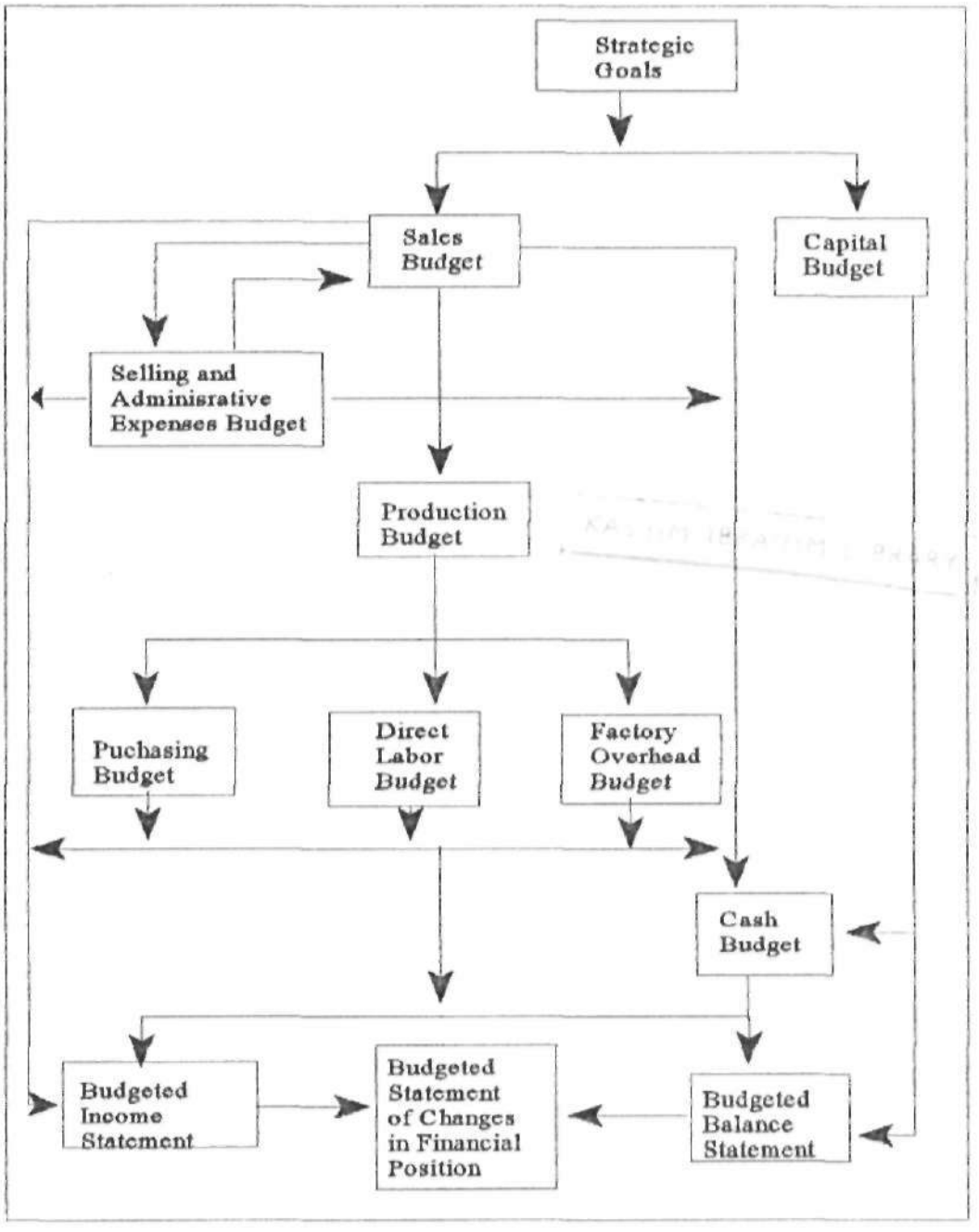
Financial budgets are concerned with expected cash receipts or disbursements, financial position and results of operations. Sub - budgets produced under financial budgets include: cash receipts budgets, cash disbursement budgets, administrative expenses

budgets, budgeted Balance Sheets, Income Statements, and statements of sources and applications of funds.

Special - decision budgets are concerned with inventory levels, capital budgets, graphic presentation of budgets, such as break-even analysis, control reports and feasibility studies.

Figure 2.2 (on page 29) illustrates the relationships among the different schedules that constitute a comprehensive budgeting plan or master budget.

FIGURE 2.2 MASTER BUDGET INTERRELATIONSHIP



SOURCE: Managerial Accounting by R. M. Copeland (1978)

The sales forecast directly relates to, and determines amounts appearing in the production budget, cash receipts budget, and budgeted income statement.

The production schedule contributes inputs to the labour, materials and purchasing schedules, the cash disbursements budget, as well as to the budgeted Balance Sheet and Income Statement.

Capital budgets affect the cash disbursements budget and budgeted Balance Sheet. Similarly, most other schedules may be affected by or may affect these budgets. After all other budgets are prepared, the budgeted Balance Sheet and Income Statement may be constructed. They are produced last because they rely on figures derived from other budgets and schedules.

2.4 THE BUDGETARY CONTROL PROCEDURES EMPLOYED

Budgetary control as defined by Cherrington (1985:123) is the establishment of budgets relating the responsibilities of managers to the requirements of a policy, and the continuous comparison of actual with budgeted results either to secure by individual action, the objective of that policy or to provide a basis for its revision.

This definition highlights several important features which are inherent in a properly conceived and operated budgetary control system.

a) Management responsibility, in that all managers have a specified job to perform which should be directed towards the overall objectives of the business, thus resulting in a co-ordinated approach.

b) The inclusion of the requirements of a policy suggests that the budget is a statement of policy concerning the position the business plans to attain as opposed to a forecast of how outside influences will affect the organization. It needs to be recognized that unless management has specific aims in view and takes action to achieve those aims, the organization's development and growth will tend to be fragmented and haphazard.

c) Budgetary control can only be exercised where there is a plan. Control takes effect by measuring the results of an activity and comparing the actual results against the budget. Where there are significant variations from the budget, management can take corrective action.

KASETSART UNIVERSITY LIBRARY

d) Management is only able to amend its policy and steer a realistic course if it understands the forces that affect the performance of the business.

The budgetary process is an integral part of both planning and control. Budgeting concerns plans for the future, the

implementation of these plans, and monitoring activity to ascertain whether it conforms to the plan. It is not just about controlling performance.

For the budgetary process to be successful, it requires top management support, co-operative and motivated middle managers and staff, and well organized reporting systems.

The **stages in budgetary control** must be followed step-by-step in order to derive the full benefits of the budget.

After the budget committee has completed its job, the agreed budgets are published and distributed to all departments within the organization. Thus, the budget acts as a means of communicating the plans and objectives downwards. The part of the budgetary process known as budgetary control provides upward feedback on progress made towards meeting plans. The main stages in budgetary control take place after the actual events. The recording of actual results, their comparison with the budget, and reporting to those responsible and senior management, which comprise the essence of budgetary control, is usually done on a monthly basis.

Speedy production of budgetary control statements and immediate investigation of revealed variances provide the best basis for bringing operations into line with the plan, or if there have been significant changes in circumstances, making agreed alterations to the plans.

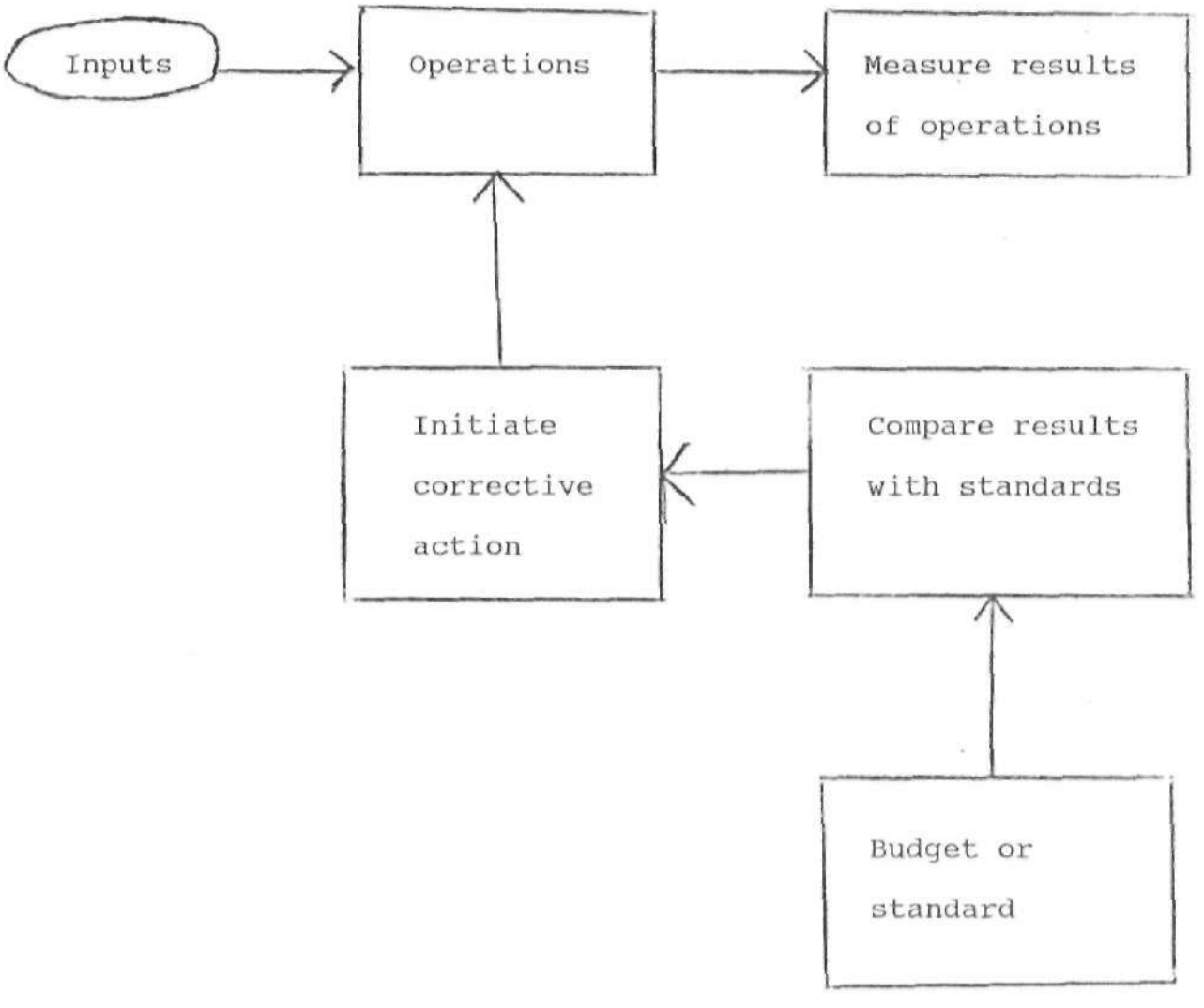
Maintaining control over the activities occurring within an organization is an important responsibility of management.

The fundamentals of budgetary control consist of :

a) defining what constitutes a standard of acceptable performance
b) measuring actual performance
c) comparing the standard with the actual performance level
d) communicating the results to the applicable areas throughout the organization and taking corrective action if needed.

Figure 2.3 (on page 34) illustrates the control cycle and the role of the budget as the standard for comparison.

FIGURE 2.3 **THE BUDGET IN THE CONTROL CYCLE**



SOURCE: Cost and Managerial Accounting by Cherrington J.O. (1985), pg 123.

The purpose of a budget in budgetary control is to specify the standard of acceptable performance. Without a standard the function of managerial control breaks down. It is impossible to evaluate the acceptability of the actual performance level unless there is a standard of comparison. When an explicit standard has not been established in advance, it is quite likely that the individual examining the reports substitutes his or her own subjective standard. When this happens, those being evaluated are subject to the capricious whims of the evaluator.

The essence of budgetary control in an organization is to ensure that the budget is being implemented in the right direction. As with planning, budgetary control is performed continuously.

Control in the budgetary process is the process of measuring and evaluating actual performance of each organizational component of an enterprise, and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals,policies and standards.

Budgetary control is exercised by using personal evaluation, periodic performance reports and special reports. The types of budgetary control procedures employed in an organization are of 3 (three) types:

a) preliminary control

b) concurrent control

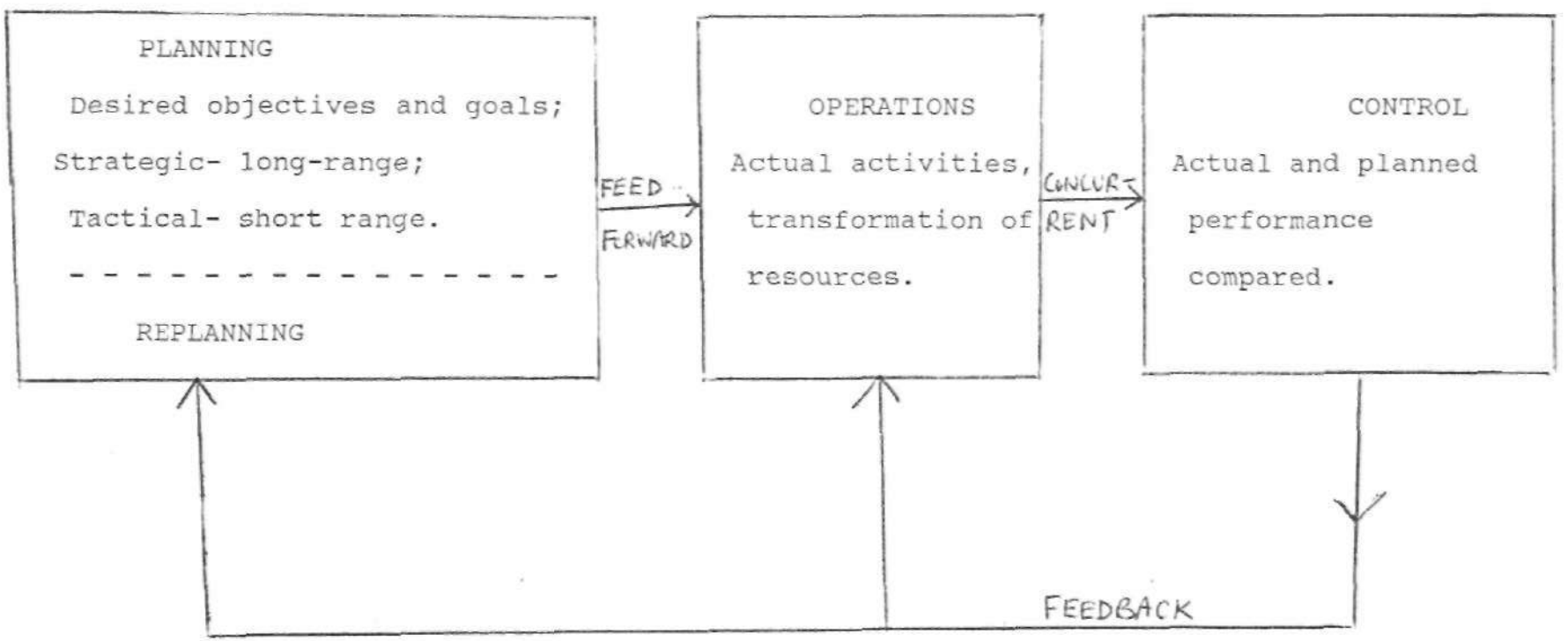
c) feedback control

KAMUZU IBRARY

1) Preliminary control (feedforward)	Used prior to action to ensure that resources and personnel are prepared and ready to start activities.
2) Concurrent control (usually periodic performance reports)	Monitoring (by using personal observation and reports) of current activities to ensure that goals are being met, and policies and procedures are being followed, during action.
3) Feedback control	Ex post action(preplanning) focussing on past results to control future activities.

The characteristics of feedforward, concurrent and feedback control are shown in Figure 2.4 (on page 37).

FIGURE 2.4 **FEEDFORWARD, CONCURRENT AND FEEDBACK CONTROL.**



SOURCE: Cost Accounting by Heitger L. (1992), pg 291.

A current control process, designed to help monitor the periodic activities of a business and of each department, has the following stages :

a) Compare actual performance for the period with the planned goals and standards.
b) Prepare a performance report that shows actual results, planned results, and any difference between the two (ie. variations above or below planned results).
c) Analyze the variations and the related operations to determine the underlying causes of the variations.
d) Develop alternative courses of action to correct any deficiencies and learn from the success.
e) Make a choice (corrective action) from the set of alternatives and implement it.
f) Follow up to appraise the effectiveness of the correction, follow with feedforward for replanning.

(preliminary control).

Effective budgetary control requires feedforward / In an organization, the objectives, plans, policies and standards have been developed and communicated to those managers who have the related performance responsibilities. Therefore, budgetary control must necessarily rest upon the concept of feedback, which requires performance measurements and triggers corrective action designed to ensure attainment of the objectives.

When budgets and plans become operational, budgetary control must be exercised to measure progress. In some cases, control also results in the revision of prior plans and goals or in the formulation of new plans, changes in operations, and reassignment of people.

Budgetary control approaches must be tailored to the characteristics of the operation and the organizational structure.

An important aspect of budgetary control that is frequently overlooked is its relationship to the point of action. Budgetary control cannot be ex post facto; for example, an expenditure already made or an inefficiency already committed cannot be undone. Therefore, effective budgetary control must be exercised at the point of action or at the time of commitment.

This concept implies that the manager responsible for the implementation of the budget in his or her unit must engage in a form of prior control; to do this, the predetermined objectives, plans, policies and standards, must have been communicated to the manager and fully understood by the manager in advance. With such information at hand, the manager is in a position to exercise control at the point of action in his or her department. This fact emphasizes why the concept of feedforward is fundamental.

The comparison of actual results with planned goals and standards constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback.

The facts shown in a performance report cannot be changed;

LIBRARY

however, the historical measurement may lead to improved control in the future. Feedback, a form of budgetary control, is therefore instrumental in replanning.

The fundamental purpose of planning and control in a budgeting exercise is to provide a feedforward process for operations and for budgetary control. The concept of feedforward is to give each manager guidelines for making operational decisions on a day - to - day basis. The approved plans constitute the primary element of feedforward.

Planning is generally recognized as the most difficult task facing the manager, and it is one that is very easy to procrastinate. The concept of feedback is an important and vital ingredient of both replanning and control.

The control aspect of budgeting is the best-known feature of budgeting, probably because it is the aspect most frequently encountered by the staff of an organization. The comparison of actual results with planned results and reporting on the variations sets a control framework which helps expenditure to be kept within agreed limits.

The essential requirements for effective budgetary control is given by Thornton (1978:177) as follows:

1) The establishment of clear objectives.
2) Top management support for the operation of the system.
3) The use of available techniques to ensure budgets are as realistic as possible.
4) The correct choice of the budget period.

5) A recognition of the control period.

6) The assessment of the budgeted level of attainment.

7) The use of a realistic preparation timetable.

8) The recognition of responsibility for control in the establishment of budget centres.

9) Clear instructions to executives to assist them in their job of preparing the budgets.

10) The scrutiny and discussion of submitted budgets, and where necessary, explanations given to managers of changes made.

11) The use of approved budgets as an essential feature of the management control process.

12) The detailed scrutiny of actual results against the plan, and a control system that ensures that where action is necessary managers are advised so that action will be taken.

The final stages in budgetary control, variance investigation and the development of solutions to problems revealed by budgetary control, provide the link between budgetary control and budgetary planning. The experience of operations, levels of performance and difficulties are fed to the budget committee, so that the planning process is continuously refined.

Budgets simply reflect the management plans in financial terms and in general will be no better or no worse than the plans themselves. It can be said for budgeting, however, that it makes

management think and plan more systematically and to greater purpose and in those respects alone it makes a worthwhile contribution.

2.5 THE IMPLEMENTATION PROCESS OF BUDGETS

Once the budget is prepared in an organization steps should be taken to ensure its proper implementation. It is of no use to the organization in having a "professionally tailored" budget on paper, while the organization's activities are not directed to comply with the modalities set out in the budget. A budget that is not properly implemented in an organization will ultimately cause serious financial problems in the organization. Also, all the time, energy and resources used during the preparation of the budget will become a total loss to the organization if it fails to implement the budget effectively.

In addition to the budget, it is often necessary to prepare an organization chart for the business and sort out overlapping operations and overlapping responsibilities. Budget responsibility and its implementation is bound up with the organization structure of the business, the management control process and cost responsibility. It is vital that budgeting action and performance be properly recorded in an organization.

Equal in importance to good budget development is good budget implementation. Too many well-conceived, well developed, initially well-supported budget programs have been allowed to deteriorate for lack of management emphasis and the needed maintenance funds.

It is common practice for the budget officer to prepare a manual to serve as a reference document for all staff concerned with the implementation of the budget. The budget manual gives staff additional information to assist them in the implementation process of the budget. A typical manual contents list for such a manual may include the following:

BUDGET MANUAL HEADING	DESCRIPTION
1. System objectives	The objectives of the system and the way the system will operate.
2. Business objectives	The objectives to be achieved by the business in the budget period in relation to its long-term plans.
3. Company policies	The policies adopted by the business to operate in the budget period.
4. Organization structure and responsibilities	The organizational structure and responsibilities of specific personnel for aspects of the budgetary procedure.
5. Budget timetable	Details of when sections of the budgetary procedure are to be completed.
6. Sectional budget preparation	Specific instructions on the preparation of each sectional budget.
7. Master budget procedure	The procedure for preparing the master budget.
8. Budget review	The procedure for the review of submitted plans.

9. Budgetary reports	The statements to be produced for management.
10.Accounting procedure	The related accounting routines to be observed.
11.Report review	The procedure for the review of budgetary reports.

When a new budget is started, there is usually a great deal of fanfare. Series of meetings are held with those concerned with the budget. Careful and complete explanations are made to all departmental heads, preferably individually. Ideally, a member of the budgeting staff works with each department head, in a participative effort, to develop the new budget. At this stage, opportunity is given to those concerned to ask questions on the budget in order to get a clearer understanding of the budget.

After all this has been done, and everything looks routine in the organization, it is a mistake to assume that all the departmental managers completely understand their budgets. Those managers will have questions that had not occurred to them during he budget start-up phase. Even more surprising to the budgeting staff person will be a statement or question from a departmental manager that shows a complete misunderstanding of something the budget person vividly remembers explaining to that departmental manager. This has to be expected. It is no reflection on the manager's intelligence. Much of it is still strange. He or she needs continuing follow-up training while developing hands-on experience with the budget.

The departmental manager about whom the budgeting staff really has to worry is the one who does not ask questions or makes statements about the budget. The reasons for such silence are many. Some managers are just plain shy. Some are afraid their questions will sound funny. Others are erroneously convinced of

much to commend this practice.

They reason that the budgeting procedure with the comparisons it provides would not be improved by revising the budget. They contend that, by allowing the budget to run its course, more useful and meaningful comparisons and information can be obtained.

It is comparatively simple to establish the deviations from the budget and the reasons for them. Frequent budgets can result in loss of purpose and sense of direction with no constant standards for measuring performance.

Revisions to the budget as originally established at the start of the budget year are needed for two reasons - human error and changes in the operating conditions. Like the establishment of the original budget allowances, budget revisions should be a joint effort by the operating managers involved and the budgeting staff.

Experience shows that an annual budget will seldom, if ever, be implemented in its original form. No budget is ever originally established perfectly. Things will be missed and errors made. And the larger and more complex the organization, the more the likelihood of human error. As the errors are detected during the budget year, they must be corrected. Most corrections are minor. When they are, they can be quickly effected between the budget person and operating manager involved, and the next higher level of management is simply notified as the correction made. If a major error is detected, that markedly affects the basic profit plan, then the correction has to be approved by top (executive) management. Such budget revisions are embarrassing, even

cataclysmic, though fortunately rare.

The more common and thus more troublesome budgeting problems are those caused by changes in operating conditions. Such changes often require budget revision, either upward or downward.

The purpose of efficient budgeting is to substantially achieve the aims of the budget while recognizing that the means of achieving them are certain to differ. There are few budgets that could not justify revision if these were viewed from a theoretical instead of a practical viewpoint.

An experienced management knows that there will be deviations from the approved budget. It also knows that in an efficient budgeting environment that there will be less deviations from the approved budget than from any other projection that could be made.

The one factor above all others that can affect budget expectations and its proper implementation is a trading-recession and reduced sales. In these conditions, management has to avoid making short-term expediency decisions that can have adverse long-term repercussions on the operation of the company. Maintaining an efficient organization intact is one of the primary objectives of management.

In modern business, circumstances and conditions can vary considerably and what suits one company may not suit another. In situations where proper implementation of the budget has to be accompanied by revision of budgets, management requirements must be the deciding factor.

Alpine (1976:212) states that a budget must be determined with a view to implementation. Budgeting must be used as an instrument of management control through built-in procedures that monitor performance against the budget. Budgets must impose personal responsibilities with accountability for performance. budgets are frequently described as "estimates". But they must be estimates in the proper sense with every possible step taken to ensure their accuracy. They must be "statements of probabilities". Unless this standard is attained the value of the budgets as a means of projecting probable results and monitoring performance will be seriously impaired and accountability and performance weakened.

It has to be appreciated that an annual budget has largely to accept the conditions as they are and make the most of them. Creating the right conditions for profitable operation is generally a long-term consideration that is embraced by strategic planning in an organization. The facts behind the figures of the annual financial statements of most successful companies will generally show that their success is attributable to decisions made and action taken three or four years previously. The fact is that a year is a short period in the profit span of most companies.

In general, annual budgeting can influence the profit but it cannot create the conditions fundamental to it.

2.6 THE PERFORMANCE REPORTING ASPECT AND EVALUATION OF BUDGETS.

Management is concerned about deviations from planned results because it may indicate errors in the budget, or remedial action may be necessary, or future plans may require revision perhaps due to an unforeseen event. Alpine (1976:196) states that it is essential for management to receive regular performance reports to reveal how actual events are keeping pace with the budget being operated in the organization. The frequency of preparation will depend upon the nature of the business; normally monthly comparisons are prepared, but in some situations weekly performance or control reports may be essential.

The report itself will usually be in the form of figure tabulations though on occasions the information may be more readily understood using a graphical form of presentation. The report structure should reflect the responsibilities defined in the development of budgets. This will vary from firm to firm. It is not therefore possible to define exactly what the performance control reports should contain, but the following principles should apply to their preparation:

a) The report should be clearly headed and the period covered shown, and the unit of measurement (eg. cash, tonnes, numbers etc.) indicated.

b) The report is to convey accurate information promptly to the person who has the authority to take action.

c) The report should only contain information relevant to the purpose for which it is prepared, thus enabling conclusions to be drawn quickly with reasonable certainty. Where the information to be disclosed is complex, more than one statement may be preferable.

d) Ambiguities in report presentation and descriptions are to be avoided and like must be compared with like. For instance, a sales control report may refer to "invoiced sales" or to "orders received", but whichever it is should be clearly stated.

e) Information included in the report should be limited to those items controllable by the recipient, thus a factory manager would receive data relating to all departments for which he has responsibility, whereas a department supervisor will only receive data relevant to his department or section.

e) All reports should be reviewed periodically to ensure that they fulfil their intended function and to ascertain whether they should be expanded, contracted or discontinued.

Performance reporting is an important part of a budgeting system. The performance reporting phase of a comprehensive budget significantly influences the extent to which the organization's

planned goals and objectives are attained.

To indicate the extensive reporting requirements a business needs and to focus on performance reporting, the following overview of financial reports is explained below:

1. **SPECIAL EXTERNAL REPORTS:**

These are reports to government agencies, regulatory commissions, creditors, investigative agencies, and other groups external to the active management. Frequently, these reports are extensive and constitute a significant portion of the overall reporting activities of the business. Such reports are costly and involve significant management attention.

2. **REPORT TO OWNERS:**

This is the traditional annual report to the owners and other special reports prepared for the owners. These reports, by and large, are based on "generally accepted accounting principles" and generally report data that have been subject to an audit by an independent external auditor.

3. **INTERNAL REPORTS:**

These confidential reports are prepared within the company for internal use only. They do not have to meet the needs of external groups, nor the test of "generally accepted accounting principles," but rather the test of internal management needs. Also, this

category of reports is subdivided into three different subclassifications:

a) Statistical reports:

These are accounting reports that show the historical statistics about all phases of operations. The data included in these reports constitute the detailed financial and operating history of the firm. The continual accumulation of these data is essential for both contemplated and unforeseen uses in the future. These statistics include the basic data for the two categories of reports outlined above; they also provide the basic data for special-purpose studies that are made from time to time. Separate reports of this type are common and are made on a repetitive basis (usually monthly).

b) Special Reports: These internal reports are not prepared according to any predetermined schedule. Each one relates to a specific management problem. Their design, scope and comprehensiveness depends on the particular problem at hand.

c) Performance Reports: These reports are usually prepared on a monthly basis and follow a standardized format from period to period (but are not standardized among companies or industries). Such reports are designed to facilitate internal control by the management. They should be composed of carefully selected series of data related to each responsibility centre. Fundamentally, they

report actual results compared with goals and budget plans. Frequently, they identify problems that require special reports, since these reports are designed to pinpoint both efficient and inefficient performance.

All companies, regardless of their size, have reporting requirements for all the categories listed above. As the size and complexity of the company increase, there is greater need for segmentation of the reporting aspect. Many companies fail to use all of these categories despite the increasing size and complexity of operations. As a company changes and grows, the overall system of performance reporting should be adapted to meet its changing needs. It is common to find an antiquated accounting and performance reporting system. In such cases, the full potential of the management and the company is jeopardized. The usual accounting report prepared for external use has limited application for internal management purposes. Accountants who attempt to meet the internal problems of management with reports designed for external purposes are not serving the management properly.

Performance reporting is an important phase of the control process in a budgeting system. In most businesses, management must rely to a great extent upon information contained in reports developed within the business. These performance reports serve as an important means of communication. Reports that communicate effectively to all levels of management stimulate action and influence decisions. Those assigned the responsibility for designing and preparing reports for management should understand

all of management's problems, the decision approaches used, and the attitudes of management.

Considerable management effort and time is required to develop profit plans for an enterprise. This effort is justified primarily because the activities of all subunits must be focused on enterprise objectives. Each department in a company fulfills a prescribed and necessary role in attaining enterprise objectives. Attainment of the profit plan is vital. To ensure performance of the objectives, control is necessary. Control has many facets. Among the more important of these are internal performance reports. Therefore, in a budgeting system, performance reports are vital.

The central objective of performance reports is the communication of performance measurements, actual results, and the related variances. In addition to control implications, performance reports offer management essential insights into all facets of operational efficiencies. Performance reports pose critical behavioural problems because inefficiencies, as well as efficiencies, of individuals are pinpointed and reported. Performance reports should be tailored to the characteristics of the particular environment.

The basic format of performance reports:

A separate performance report should be prepared for each responsibility centre, starting with those at the lowest level, which in turn feed into summary reports for each higher level. Performance reports should clearly distinguish between controllable

and non-controllable items. Performance measurement requires that actual results be compared with plans, objectives, and standards so that the significant differences (exceptions) call management's attention high, low and satisfactory performance. Variances from plans identify for the managers the areas that need investigation and possible action. Management action may be corrective, commendatory, or revisory. Favourable variances justify investigation as well as unfavourable variances. Unfavourable variances may signal danger. Further investigation usually is necessary to pinpoint the precise causes. Performance reports should be prepared periodically , generally on a monthly basis, although certain problems may suggest the need for weekly or even daily reports.

The extent to which the various managers use their performance reports depends on many factors, some behavioural and some technical. One important factor is the extent to which the performance reports serve the measurement and decision - making needs of the users. Communication is a subtle management problem, and it is facilitated by performance reports if the users (ie. top management, middle management and lower level management) are taken into account.

Harris P. (1995:36) undertook a study on budgeting and control in organizations, and he found out that in some organizations, managers are becoming increasingly dissatisfied with the information they get from performance reports. This is because it does not always give them something that they can readily translate

into managerial action. In other words, long list of variances attributable to a wide range of causes are of no obvious benefits to a manager. Therefore, this is a serious behavioural problem on the part of the manager as he is unable to draw or arrive at meaningful conclusions from the performance reports.

The ways of communicating financial information can be broadly classified as follows:

1. **Written:**

a. Formal financial statements

b. Tabulated statistics

c. Narration and written expositions

d. Ratios and other performance indicators.

2. **Graphical:**

a. Charts

b. Diagrams and pictures.

3. **Oral:**

a. Group meetings

b. Conferences with individuals.

A company should use a variety of ways for communicating information to management. In most companies, all the ways listed above should be used from time to time. Selection of the appropriate way should depend on such factors as the type of report, data involved, level of management using the report, purpose of the report, background of the principal uses, and nature

of the operations. Some managers are chart - minded, others are figure - minded, and others prefer written communications. Those designing and preparing performance reports should keep in mind that financial reports are used primarily by non-accountants with varied backgrounds. In view of these considerations, some companies have adopted combined forms of presentation.

It should be noted that words frequently tell the story much more effectively than figures alone. Analyses of the causative factors involved in a performance report showing significant exceptions should usually be presented in narrative form.

In order to evaluate the budget, variance analysis and ratio analysis can be conducted by the organization.

The primary value of performance reports is in the comparison of actual results with budget objectives and in the analysis of the resulting variances. Thus if actual costs are greater than budgeted costs, the variance is often described as being "unfavourable". Favourable and unfavourable variances frequently are displayed in a separate column of the performance report. This enables managers to practice "management by exception," a method in which managers need pay attention to only those items that deviate from expectations.

A variance or deviation from budget should lead the manager to ask the following questions:

a) Which elements under my control deserve attention?
b) What was the cause of variance in these elements?

c) What corrective action can be taken to prevent this from recurring in the future?

d) Should the budget or expectation for this item be modified for future control purposes?

Well managed companies use monthly performance reports covering all aspects of operations. These reports give favourable and unfavourable variances between actual performance and planned performance for the month just ended and, cumulatively, for the year to date.

High and low performances should be given immediate priority to determine the causes. However, the process should not stop at this point. Follow-up is the key phase of effective control.

Follow-up procedures should begin at the top- management level, to discuss and analyze both unsatisfactory and satisfactory conditions. Decisions should be made about the ways and means to correct unsatisfactory conditions. Favourable variances should also be analyzed:

1) to determine whether the goals were realistic
2) to commend those responsible for high performances, and
3) to transfer some "know-how" to other responsibility centres.

Follow-up procedures should embody constructive action to correct unfavourable conditions rather than punitive action for

failure, the results of which obviously cannot be erased.

One key aspect of budget implementation and control is the principle of flexibility. To view the profit plan as an inflexible blueprint is to invite trouble. During the planning phase, it is impossible to anticipate all contingencies. Therefore, adjustments must be made in the operating plans and the performance reports. The budget should not be viewed as a restriction, but rather as a specification of the goals of the entity. Similarly, performance variances should be viewed flexibly. The primary purposes should be to correct problems and improve implementation. Punishment should not be the purpose of performance reports.

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than taking action only on the basis of a difference between actual and planned or budgeted costs or sales, variance analysis enables management to decompose such differences into smaller subvariances. Each of these subvariances relates to a particular type of cause for the overall variance. Variance decomposition helps management to better understand the causes of variances from planned performance and take corrective action through management by exception. The decision to investigate a variance is a cost/benefit decision. The benefit derives from the possibility of returning the production system to its efficient state. The cost is the use of management time to investigate the cause of the variance. Management time is usually viewed as a scarce resource with a high cost per hour.

However, variances, if not corrected, tend to persist and even increase in significance. This tendency can be very costly because variances accumulate over time.

Another way to evaluate budgets is by the use of ratio analysis. To evaluate the financial condition and performance of a firm, the accountant needs certain yardsticks. The yardstick frequently used is a ratio or index, relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced, skilled accountants a better understanding of the financial condition and performance of the firm than they would obtain from analysis of the financial data alone.

Ratio analysis facilitates evaluations of accounting information by reducing much data into a smaller set. As quantitative indicators, ratios are not influenced by the size of the activities or departments being compared. Ratios thus allow comparison between large and small departments or between large and small production runs.

A ratio test compares selected ratios, based on budget data, with past ratios of the 1) company 2) industry, and
3) company objectives.

Any significant difference between the ratios reflected by the budget data and these target ratios should be investigated to determine the cause. The basic ratios of a company are often difficult to change in the short run. However, if the cause can be

related to specific planning decisions, policies, or assumptions that influence planned results, the ratio test has served its purpose.

The budget director should frequently apply ratio tests during the development of the budget. When the test shows a particular ratio to be out of line with company objectives, the executive responsible for the particular plan should be informed so that the problem can be studied. Should a preferable alternative be identified, action can be taken to revise all affected parts of the plan.

The analysis of financial ratios involves two types of comparison. First, the analyst can compare a present ratio with past and expected future ratios for the same company.

The second method of comparison involves comparing the ratios of one firm with those of similar firms or with industry averages at the same point in time. Such a comparison gives insight into the relative financial condition and performance of the firm.

In evaluating the budget, the budget director/manager should avoid using "rules of thumb" indiscriminately for all industries. For example, the criterion that all companies should have at least a two-to-one (2:1) current ratio is inappropriate. The analysis must be in relation to the type of business in which the firm is engaged and to the firm itself. The true test of liquidity is whether a company has the ability to pay its bills on time. Only by comparing the financial ratios of one firm with those of similar

firms can one make a realistic judgement.

Financial ratios can be divided into four types:

1. liquidity
2. debt
3. coverage, and
4. profitability.

Liquidity ratios are used to judge a firm's ability to meet short-term obligations. From them, much insight can be obtained into the present cash solvency of the firm and its ability to remain solvent in the event of adversities. Essentially, liquidity ratios compare short-term obligations with the short-term resources available to meet these obligations. Examples of liquidity ratios include: current ratio, acid test ratio, liquidity of receivables, (ie. average collection period, receivable turnover ratio), liquidity of inventories, (inventory turnover ratio).

Debt ratios analyze the long-term liquidity of the firm. ie. its ability to meet long-term obligations. Examples of debt ratios include: the debt- to- net -worth ratio, debt-to-capitalization ratio, the cash flow-to-total liabilities ratio.

Coverage ratios are designed to relate the financial charges of a firm to its ability to service them. Examples of coverage

ratios include: the interest coverage ratio and the cash-flow coverage ratio.

Profitability ratios are of two types: Those showing profitability in relation to sales, and those showing profitability in relation to investment. Together these ratios indicate the firm's efficiency of operation.

Under profitability in relation to sales, examples include the gross profit margin ratio, and the net profit margin ratio.

Under profitability in relation to investments, examples include rate of return in common-stock equity and return on assets ratio.

Each type of ratio has a special use for the evaluation of the budget. These ratios are helpful for managerial control and for a better understanding of what outside suppliers of capital expect in financial condition and performance.

No one ratio gives us sufficient information by which to judge the financial condition and performance of the firm. Only when we analyse a group of ratios are we able to make reasonable judgements as regards the successful evaluation of budgets that have been implemented.

Van Horne (1986:788) is of the view that a comparison of ratios of the same firm over time uncovers leading clues in

evaluating changes and trends in the firm's financial condition and profitability.

The comparison may be historical and predictive. It may include an analysis of the future based upon projected financial statements. Ratios may also be judged in comparison with those of similar firms in the same line of business, and when appropriate, with an industrial average. Caution is necessary in such comparisons, because the distributions of financial ratios for an industry typically are not normal. The Accountant must heed other caveats and be aware of various sources of industrial financial ratio information.

2.7 HISTORICAL BACKGROUND OF THE SELECTED COMMERCIAL BANKS

The historical background of the four selected banks namely, i) United Bank for Africa PLC; ii) Union Bank PLC; iii) Savannah Bank of Nigeria PLC; iv) Afribank PLC are given below.

2.7.1 UNITED BANK FOR AFRICA PLC (U.B.A. PLC)

The United bank for Africa PLC was established in 1961 by a consortium of five international banks to take over the banking business carried out in Nigeria since 1949 by the British and French Bank Limited. The Bank went public in 1960 in accordance with the policy and intention of the French owners of the Bank to sell off some of their shares to Nigerians.

On February 23, 1961, the United Bank for Africa Limited was

incorporated to take over the assets and liabilities of the British and French Bank. With its establishment, U.B.A. became the first bank among the international banks operating in Nigeria at the time to be registered under the Nigerian Law. At that time, its paid-up capital was over =4=million. The five founding banks were:-

i) The British and French Bank
ii) Banca Nazionale del Lavoro of Italy
iii) Monte dei Paschi di Siena of Italy
iv) Bankers Trust of New York, U.S.A.
v) Amsterdam Rotterdam Bank of Holland.

By 1961, the Bank had grown from its one-office structure to ten branches located in Lagos, Kano, Kaduna and Port-Harcourt.

At incorporation, UBA had a staff strength of approximately 650 nationwide. Its total deposits were valued at =N= 1.89 million, its loans and advances amounted to =N= 8.677 million and its total assets were worth =N= 11.903 million. By 1990, the bank's total deposits had shot up to over =N=9.6 billion, loans and advances exceeding =N=2.5 billion while total assets hit over =N= 11 billion. That year, its branch network had reached 190 while staff strength was over 8,000 persons.

KASHIM IBRAHIM LIBRARY

	1961	1981	1986	1990
	=N='000	=N='000	=N='000	=N='000
Total Deposit	1,898	2,407,218	3,932,789	9,694,080
Loans and Advances	8,677	1,161,294	1,471,419	2,505,400

Shareholders Funds	4,004	94,312	238,839	472,097
Total Assets	11,903	2,518,970	4,617,644	11,350,873
Branches Nationwide	10	77	140	189
Staff Strength	650	4,500	7,194	8,614

Through its progressiveness and dynamism in international banking, UBA has established a firm presence in the major financial centres of the world. This is in addition to its over 200 major correspondent banks in over 70 countries of the world.

UBA's outstanding performance over the past years is in part attributable to the bank's willingness to innovate, with the dual objective of providing first-class banking service and being a good corporate citizen. The Bank is strongly committed to its social responsibilities and contributes meaningfully to the development of the communities in which it is represented.

2.7.2 UNION BANK PLC

Union Bank began its operations in Nigeria in the year 1917 with the opening of the Colonial Bank Offices in Lagos, Jos and Port Harcourt. In 1925, the Bank was acquired by Barclays Bank and its name was changed to Barclays Bank DCO (Dominion, Colonial and Overseas). The bank developed and grew rapidly over the years.

In compliance with the directive of the government in 1968, that all companies, including banks, must be incorporated locally in Nigeria, Barclays Bank DCO was incorporated in Nigeria in 1969

and its name was consequently changed to Barclays Bank of Nigeria Limited.

As a result of the Nigerian Enterprises Promotion Decree of 1972 and 1977, the Federal Government of Nigeria acquired 52% of the bank's shares leaving 40% for Barclays Bank International Ltd., while the remaining 8% was taken up by the Nigerian public. Barclays Bank sold 50% of its shares to Nigerians in 1979, thus reducing her equity to 20%. Following this development, the bank's name was changed to Union Bank of Nigeria Limited, to reflect the new ownership structure.

The growth of the bank in the recent past has been tremendous. Today, the bank has over 225 branches spread throughout the country and a branch in London. The bank currently has a staff strength of over 11,300 and is the largest employer of labour in the banking industry in Nigeria. In addition, the bank has five staff Training Centres in the country.

2.7.3 SAVANNAH BANK OF NIGERIA PLC (S.B.N. PLC)

Savannah Bank started its operations as Bank of America (Nigeria) Limited in August 1960. At that time, it was an entirely foreign owned branch of Bank of America. Its operations in Nigeria remained in that form for 16 (sixteen) years during which there were four branches in the country- Lagos, Apapa, Kano and Port-Harcourt.

As a Nigerian bank, Savannah Bank of Nigeria PLC was born on

30 September 1976 when the Federal Government acquired 60% of the equity of Bank of America (Nigeria) Limited. The structure of ownership has since changed slightly.

Recently, there have been radical changes in the bank's operations and improvement in commercial activity. In addition, remarkable progress has been made in branch expansion, profitability and shareholding structure. By 1991, the bank had 60 branches nation-wide, compared to 12 branches in 1980.

Administering Savannah Bank under this formidable growth requires a well organized structural arrangement with a sound management base. The basic policy here is Management By Objectives (M.B.O.). In this regard, the ratio of staff output to growth is tailored towards generating profits and creating a strong capital and liquidity base as a precondition for good lending policies. This is meant to sustain customers' confidence and allegiance to the service of the bank.

As the bank continues to grow, financial expediency has continued to spin the bank's philosophy round providing quick and efficient services to its customers.

2.7.4 AFRIBANK NIGERIA PLC

Afribank Nigeria PLC, formerly known as International Bank for West Africa Limited (IBWA) was incorporated in Nigeria in 1959 and began operations in 1960.

The Bank was originally owned by Banque de l'Afrique

Occidentale (BAO), the Bank was renamed Banque Internationale Pour l'Afrique Occidentale (BIAO) to reflect its 49% acquisition in 1964 by First National City Bank Inc., and consequent international ownership. The bank was later incorporated under the Companies Decree, 1968, as a private limited liability company on 30 May 1969.

In 1976, the Federal Government of Nigeria acquired 60% ownership of the bank, while BIAO retained 40% shareholding as its technical partner. Later, 10% out of the federal Government holding was relinquished to the staff of the bank to reduce the Government's holding down to 50%.

As a result of the recent decision of the Federal Government of Nigeria to divest its interest in all banks, the shares held by the Federal Government were offered to the Nigerian public in January 1993. Also, 40% of the ordinary shares of the bank held by BIAO (now in liquidation) have been re-acquired by the Federal Government of Nigeria and are now being warehoused by MOFI (Ministry of Finance Incorporated).

The bank changed its status from a private company to a public limited company by a Special Resolution passed on 7 October 1992.

Afribank is one of the most diversified banks in the country. Over the last few years, the bank has increased its branch network to 120 branches nationwide, an asset base in excess of =N= 14.0 billion and a wide spectrum of corporate, institutional and individual customers that enjoy the professional services of the

bank in meeting their financial objectives and obligations.

In meeting the full range of its customers' requirements, the bank has diversified its operations into the following wholly-owned subsidiaries to complement its comprehensive financial services delivery. Its subsidiaries include:

i) Afribank International Ltd. (Merchant Bankers)

ii) ANP International Finance Ltd., Dublin, Republic of Ireland

iii) Afribank Insurance Brokers Company

iv) Afribank Estate Company Ltd. (in-house service to the Group).

The bank is well-diversified, has a good customer base, and places high premium on staff training and career development.

2.8 BUDGETARY OPERATIONS IN COMMERCIAL BANKS

A budget is represented as:-

i) A target of what should be spent

ii) A forecast of what will be spent

iii) An authority to spend

iv) A limit not to be exceeded.

A target is an objective to be achieved and a forecast an estimate of performance. An authority to spend is an aspect of the control procedure where the authorization of top management has been delegated to a lower level of management. The limit not to be exceeded is a specification extending point (3) to a control total.

Points (3) and (4) may be linked in the stipulation that each unit manager must not exceed the spending limit allocated to each unit without authority, recognizing the view that the budget may be exceeded for good reasons.

Banks should have a good conceptual view of what the budget encompasses and take proper steps in drawing up the budget.

In the budget preparation stage, each manager of each branch unit undertakes the following steps in order to arrive at a well-planned and comprehensive budget for the branch. All the banks' unit managers with responsibility for planning and initiating action are asked to develop specific action programmes to obtain a significant improvement in profits and improve upon the previous year's budget. Each unit manager of the bank has, therefore to :

a) review the activities for which he is responsible.

b) decide where opportunities exist that will enable him to make a contribution to improved profits.

c) select from a number of opportunities those that will best repay his efforts, recognizing the probable limitations in personnel, money etc. that exist the manager's own capacity for planning and implementing changes.

d) define the particular objectives which he has selected.

e) review alternative methods of achieving the objectives. Select the best method and plan the detailed steps required to obtain these goals. Specify the action required, the timing

and the person responsible for each critical step in the budget programme.

f) assess the impact of his plans on profits and in terms of changes in the assets of the bank to be employed.

g) submit his proposed plans to his superior for review.

With the above steps taken in budget preparation together with budget guidelines sent by the Head Office to the various branches, the branch manager and unit managers are expected to come up with a well planned budget to suit the bank. The Budget Guidelines sent by the Head Office give specific guidelines to the banks on many matters such as: Sectoral distribution of credit between priority sectors and other sectors of the economy. The priority sectors are: Agriculture production 18%; Manufacturing Enterprises 42% and Exports 10%. The other sectors take up the remaining 30%. Also included in the Budget Guidelines are the loans and advances growth rate, commissions and fees/charges,staff costs,operating expenses etc. The proposed budget inputs prepared by the branches are then sent to the Head Office for final consideration. The Budget Committee members at the Head Office after a series of deliberations then sends the approved budgets to the various branches of the bank for implementation. This shows that the budget preparation stage is done thoroughly.

Banks develop their short-term plans in relation to long-term forecasts. The long-term forecast is for a period of three to five

years, it is not prepared in great detail because of the uncertainties involved, but rather in sufficient detail to serve as a sound guide for short period budgeting. An example of a long-term forecast is the Capital Expenditure budget. The banks have further divided this budget into two classes:-

i) Light Equipment : eg. typewriters, filing cabinets, furniture etc.

ii) Heavy/Security Equipment : eg. bullion safes, cash safes, currency notes detectors, communication equipment etc.

The short term budgets of the banks is usually for one year corresponding to the financial year of the business. The budgets include among others, Income budget (which incorporates the cash budget too), General Expenses (or Revenue Expenses) budget which includes staff emoluments, staff welfare costs, operating expenses etc. These short-term budgets are prepared in detail.

In the budget prepared by banks, care is taken in the choice of the budgeted level of attainment. The level of attainment usually incorporated in the budget is a realistic figure for the budget period. It is a level that is reasonably attainable in the conditions that are expected to exist in the budget period.

Major changes and amendments to the budgets are not permitted without authorization by Budget Committee members at the Head Office. An approved budget should not be changed without good reason. Changes in circumstances since the budget was prepared

will take place continually, but a distinction should be made between actual and budget variations which arise in the normal course of business of the banks' operations but do not affect the budget; and changes in the basic conditions upon which the budget was based. When a major change to the budget is to be made, the unit manager concerned is expected to complete a "budget amendment form", and in this form, the extent and reasons for amendment of the original budget are explained in detail. This budget amendment form will pass through the normal stages of scrutiny and approval. The unit manager will pass it on to the branch manager of the bank who will go through it in consultation with other unit managers and then it will be passed on to the Head Office for further deliberations and final authorization to make the amendments where necessary.

The purpose of a budget in budgetary control is to specify the standard of acceptable performance in the banks. Without a standard, the function of managerial control in the banks breaks down. It is impossible to evaluate the acceptability of the actual performance level unless there is a standard of comparison. When an explicit standard has not been established in advance by the bank, it is quite likely that the individual examining the reports substitutes his or her own subjective standard. When this happens, those being evaluated are subject to the capricious whims of the evaluator.

KATHMANDU BOARD LIBRARY

When a bank sets standards of acceptable performance, it has to be done with good judgement or else motivation may be misplaced. For example, managers may be satisfied with budget performance when better performance is possible and could reasonably be attained if a low level of attainment or low standards of acceptable performance had not been agreed in the budget. Where managers know that the figures they submit for budgeting purposes will subsequently be used as a measure of their efficiency,there is built in the system an incentive to submit estimates that are not too demanding on their performance.

For budgetary control to be effective and the full implementation of budgets it is mandatory that the three forms of budgetary control: feedforward, concurrent and feedback control be adopted by banks.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 OVERVIEW

Research is the process of arriving at dependable solutions to problems through the planned and systematic collection, analysis, and interpretation of data.

There are risks and uncertainties associated with the activities of commercial banks. As a result of this, there is a need for financial prudence in the banks to counter the effects of such risks and uncertainties.

Budgetary control involves the process of measuring and evaluating actual performance of the organization (for example, a commercial bank) and initiating corrective action when necessary to ensure efficient accomplishment of the organizational (that is, commercial banks) objectives and goals. The adoption of a proper budgetary control system will assist commercial banks in the prudent management of its funds and it will go a long way in reducing the incidence of distress in banks.

In this chapter, an attempt will be made to explain concisely how the research has been carried out, with regards to budgetary control in commercial banks, the area of the study, the data

instruments and data collection methods and the methods of data analysis will be discussed.

3.2 RESEARCH METHOD ADOPTED

In this study, the research method used is the Survey Research method. Survey research involves the collection of first hand information and data from primary sources by the researcher. The Survey Research method is usually more accurate than the historical research method, since the researcher is in control of the actual situation in the field.

The Survey Research method is a way of obtaining the exact facts and figures about a current situation. Surveys do more than merely uncover data. They interprete, synthesize, and integrate these data and point to implications and interrelationships. As the Survey Research method is not restricted to fact finding alone, its use often results in the formulation of important principles and the solution of problems.

The Survey Research method can be used to cover large, representative samples or it can be used for more intensive study by confining it to a limited number of case-studies depending on the purpose for which the research is carried out.

In this research, an intensive study of some selected commercial banks will be done. This form is adopted in order to carry out an in-depth study of the selected commercial banks and

come up with an effective budgetary control system that can be operated in commercial banks so that, it will give optimal solutions to the current problems of budgetary control, rather than just a satisfactory or better solution. In order to get an optimal solution to a problem, all avenues must be explored in the budgetary control system of the selected commercial bank in order to achieve the optimal solution.

A limitation to the Survey Research method adopted, is that as an intensive study of a few cases is carried out, it will tend to dig deeper, but may lose something in generality. The solution to the budgetary control problems being experienced in the selected commercial banks may not be directly applied in general to all commercial banks. However, it will serve as a guide in the formulation of similar efficient budgetary control systems for other commercial banks.

KASHIM IBRAHIM LIBRARY

3.3 SAMPLE SIZE AND EXPECTED DATA TO BE COLLECTED

The purpose of collecting information for a research is to draw conclusions and make generalizations which will aid in solving the problem under study.

In every research undertaken, either the whole population or only part of it will be covered. The use of a part of the whole population as a basis for the estimate of the whole is known as sampling.

In this study, the scope of the commercial banks to be

selected is limited to the commercial banks that are located in Zaria. This limitation is due to the high transportation costs and other related costs involved in this research. However, in order to try and offset this limitation, a larger sample size is chosen. The commercial banks selected are:

(1) United Bank for Africa PLC.

(2) Union Bank PLC.

(3) Savannah Bank PLC.

(4) Afribank PLC.

Therefore, a sample size of four is chosen.

In commercial banks, the budgets are prepared and implemented with authorization from the Head Office.

This research is the study of the budgetary control system in operation in the four selected commercial banks and how the problems relating to budgetary control can be solved to improve upon the existing budgetary control system being operated. The data needed for this research (both primary data and secondary data) will be obtained from the selected commercial banks under study. The data will be collected by administering questionnaires and by having interviews with the management of the selected commercial banks.

The primary source of data which is the data collected for the first time by the researcher consists of the data obtained through the process of administering questionnaires and conducting personal interviews with the management of the selected commercial banks.

The secondary source of data which is data collected previously and compiled by the banks' consists of the selected commercial banks' published annual reports and accounts, the banks' special publications, banks' budget formats and other relevant and related financial records.

3.4 METHOD OF DATA ANALYSIS

The term data analysis is defined as the ordering and breaking down of data into constituent parts. This is necessary in order to provide clues and answers in order to draw conclusions and provide solutions to the questions initiating the research.

The data collected will be analysed in detail by the use of tables and the budgetary control system operated by the selected commercial banks will be studied to identify its strengths and weaknesses. Then, solutions and suggestions will be proffered to solve the budgetary control problems experienced in the selected commercial banks.

The constraints on the selected commercial banks will also be noted and examined in order to evolve a budgetary control system that will be of relevance and of benefit to the selected commercial banks.

In order to analyse the data, the budgetary control system of the selected commercial banks will be studied in depth using variance analysis. Performance evaluation reports will be used to

analyse whether the budgetary control system is being operated efficiently and implemented well or not.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 OVERVIEW

The main aim of this chapter is to present the data and information obtained from the selected banks during the research process. The data was collected by administering questionnaire to the selected commercial banks and also having interviews with officials of the selected banks. An analysis will be done of the presented data with a view towards answering the research questions.

The purpose of this research is to discover the budgetary control problems encountered in the selected commercial banks and proffer solutions to these problems. The responses to the questionnaire administered to the selected commercial banks will be analysed. The responses to the questions asked during the interviews held with the management of the respective banks will be considered in order to arrive at suitable solutions to the problem of budgetary control in banks.

4.2 THE BUDGETARY PROCESS

4.2.1 UNITED BANK FOR AFRICA (U.B.A.) PLC.

In United Bank for Africa PLC., budgets are prepared on an annual basis. The budget is prepared by members of the Budget Committee which comprise of top, middle and lower level management staff. The budget is prepared at the Head Office. The various branches of U.B.A. send in their proposals on the budget to the Head Office and the Head Office collates all these budget proposals from the branches. The budget committee members at the Head Office then prepare the budget and send it down to the various branches for implementation.

During the financial year, if there are major revisions to be made to the budget, the amendment(s) to the budget are carried out by all the budget committee members at the Head Office. As such, branches are to notify the Head Office with supporting documents if the need arises for a major change to be made in the budget. The branch is therefore not allowed to make any amendments to the budget, without authorization from the Head Office.

During the preparation of the budget, there are two forms of expenditure that are closely scrutinized, these are:-

i) Revenue Expenditure and

ii) Capital Expenditure.

Revenue Expenditure includes items such as staff salaries and emoluments, electricity bills, stationery expenses, maintenance cost on plant and machinery etc. Each branch of U.B.A. submits its budget estimates for revenue expenditure to the Head Office. As such, revenue expenditure estimates for the budget are decided at the branch level.

Capital Expenditure consists of expenditure on items such as purchase of assets, major repairs (eg. improvements) to be made to existing assets etc. With respect to capital expenditure, the branch makes proposals on capital expenditure items and the Head Office looks into the need for these items and then authorizes or rejects the proposal. So the branches have to seek for approval from the Head Office before executing or embarking on capital expenditure projects.

The bank's priority sectors with regards to lending in the forms of loans is the agricultural sector and manufacturing sector respectively.

The bank's forms of revenue include among others: interest on loans and advances, Commissions on Turnover and Discounts Received when Bills of Exchange are discounted.

The budgetary control procedure adopted by the bank is the feedback procedure, whereby the bank focuses on the past results of the budget in order to control future budgeting activities.

The bank has the:

i) Inspectorate Division and

ii) Monitoring and Control team.

Their responsibility is to supervise the banking operations of the various branches of the bank, which includes the budgetary control aspect too.

The Inspectorate Division is under the Board of Directors. The inspectors make quarterly visits to the branches and report their findings directly to the Board of Directors.

The Monitoring and Control team is placed under the Regional Management. U.B.A. has six regions. Three regions are based in the North while the remaining three are in the Southern part of Nigeria. The Regional Management members are directly under the Deputy General Manager. The inspectors in this team visit the bank's branches on a monthly basis. They complement the work of the inspectors in the Inspectorate Division.

In order to evaluate the budget, periodic performance reports are prepared on quarterly basis.

4.2.2 UNION BANK PLC

Union Bank PLC prepares its budgets on an annual basis. The members included in the preparation of the budget are top, middle and lower level management staff. During the budget preparation stage, the branches send in their various budget estimates (inputs) to the Head Office. The Head Office then vets these figures and draws up the final budget for the various branches.

Any major amendment that is to be done to the budget during the implementation stage caused by major changes in policies is to be handled at the Head Office. The various branches are not allowed to make any changes to the laid-down budget without seeking for permission to do so from the Budget Committee members based at the Head Office.

The bank maintains a tight control over expenditure. By avoiding unnecessary expenditure, it will further enhance the profitability of the bank. The bank must seek for clearance from the Head Office before undertaking any capital expenditure project.

The bank's priority sectors with regards to lending in the forms of loans is the agricultural sector and the industrial sector respectively.

YASHIM IBR

The bank's sources of income include interest received on loans and advances, interest on overdraft, commissions on turnover etc.

The budgetary control procedures adopted by the bank are the Concurrent and Feedback procedures respectively. The concurrent control procedure involves the monitoring of current activities of the budget by using personal observation to ensure that the actual results are matched against the budgeted estimates. While the feedback control procedure involves the study of past results of the budget in order to control the future budgeting activities.

The bank uses periodic performance reports as a technique to evaluate the budget and monitor the implementation phase of the budget.

4.2.3 SAVANNAH BANK PLC

Budgets are prepared annually in Savannah Bank PLC. The budget is prepared by members of the Budget Committee which comprise of top and middle level management staff only. The Head Office prepares budget guidelines and this in addition to the various budget inputs sent by the various branches are used by the Budget Committee members at the Head Office in order to prepare the final budget. The Head Office has a planning Department in which

budgeting activities are looked into. The Planning Department is headed by the Assistant General Manager-Planning (AGM Planning). The AGM Planning and the Budget Committee members go to the Area Offices of the bank's where the various Branch Managers come up with their proposed budget estimates and defend the budgets they have arrived at. After collating all these, the Budget Committee members then finalize plans and bring out the final budgets to be implemented by the various branches.

If there are major revisions to be made to the budget, then the branches will have to communicate this to the Planning Department at the Head Office. Therefore all major amendments to the budget are handled by the Head Office.

The Bank prepares separate budgets for Capital Expenditure and Revenue Expenditure. Expenditure is controlled in order to enhance the profitability of the bank.

The bank's sources of revenue include interest on loans and advances, interest on overdraft facilities etc.

The bank's priority sectors with regards to lending in the forms of loans are ranked as follows: Industries, Agriculture, Import and Export sector.

The bank uses the concurrent and feedback procedures respectively as forms of budgetary control procedures in

order to control the implementation phase of the budget.

The techniques used by the bank to evaluate the budget are the periodic performance reports and variance analysis sheets/reports to check the extent of deviations of the actual results from the budgeted estimates.

4.2.4 AFRIBANK PLC.

In Afribank PLC. budgets are prepared on a yearly basis at the Head Office. Each branch uses the established rules or budget guidelines sent from the Head Office as a basis in the preparation of the branch's budget estimate proposals. These budget proposals are then sent by the various branches to the Budget Committee at the Head Office for vetting and final approval. The Budget Committee is composed of top, middle and lower level management staff.

If during the year, major amendments are to be made in the budget implementation phase, due to policy changes etc., the branches are not allowed to revise the budget on their own accord. The branch is expected to inform the Head Office who in turn will consider if changes should be made and then authorize the branch to make changes.

Separate budgets for Capital Expenditure and Revenue Expenditure are prepared by the bank. This is important,

as strict expenditure control measures should be adopted to enhance the bank's profitability.

The bank's sources of income include among others interest on loans and advances, interest on overdrafts, commissions on turnover etc.

The budgetary control procedures employed in the bank is the periodic performance reports which are sent on a quarterly basis to the Head Office, so that the Head Office can monitor the implementation of the budget done so far and ensure conformity and adherence to the budgeted estimates. If the Head Office spots major deviances of actual results from the budgeted estimates, then the branch concerned is querried and asked to give reasons for the variances. The bank uses the feedback technique of budgetary control to monitor the budget.

4.3 PRESENTATION AND ANALYSIS OF DATA COLLECTED

The presentation and analysis of data is given below. The data was obtained from the four selected banks viz.:

i) United Bank for Africa PLC

ii) Union Bank PLC

iii) Savannah Bank PLC and

iv) Afribank PLC.

KADUNA POLYTECHNIC LIBRARY

The questionnaires were administered to the Branch Manager and Accountant respectively of the selected banks. The responses to the questionnaires by the banks are given below in a tabular form.

TABLE 4.1 RESPONSES TO THE QUESTIONNAIRE BY THE FOUR SELECTED BANKS

S/No	QUESTIONS	RESPONSES MADE BY THE BANKS			
		U.B.A.	UNION	SAVANNAH	AFRIBANK
1.	How often are budgets prepared by the bank?	Annually	Annually	Annually	Annually
2.	In the preparation of the budget, who are the members of the Budget committee?	Top, middle and lower level management	Top, middle and lower level management	Both top and middle level management	Top, middle and lower level management
3.	If major revisions are to be made to the budget, due to major changes that have occurred, who all are involved in the budget revision exercise?	All members of the budget committee	All members of the budget committee	Any revision is handled by the planning Dept. at the head office	All members of the budget committee
4.	What form(s) of budgetary control procedures are adopted by the bank?	Feedback control	Concurrent and feedback control	Concurrent and feedback control	Feedback control
5.	What are the bank's major sources of deposit? (Rank it)	Current deposit Savings Time deposit	Current deposit Savings Time deposit	current deposit Savings Time deposit	current deposit Savings Time deposit
6.	What are the bank's priority sectors with regards to lending in the form of loans?	Agriculture and Manufacturing sectors.	Agriculture and Industrial sectors	Industrial, Agricultural Import and Export sectors	Agriculture, Industrial and Commerce sectors.
7.	How much funds are released as agricultural loans by the bank annually?	Between N3M and N4M	Above N5M	Above N5M	Above N5M
8.	How much funds are released as loans to the industrial sector annually?	Above N5M	Above N5M	Above N5M	Above N5M
9.	How much funds are released as loans to the import - export sector annually?	Between N1M and N2M	Above N5M	Above N5M	Below N1M

TABLE 4.1 (Contd) RESPONSES TO THE QUESTIONNAIRE BY THE FOUR SELECTED BANKS

S/No	QUESTIONS	RESPONSES MADE BY THE BANKS			
		U.B.A.	UNION	SAVANNAH	AFRIBANK
10.	How much funds are spent on capital expenditure projects annually?	Below N1M	Between N 1M and N2M	Between N1M and N2M	Below N1M
11.	How much is received annually as interest on loans, advances and overdrafts?	Between N4M and N5M	Above N5M	Above N5M	Above N5M
12.	How much is spent annually on general expenses? (i.e. Staff salaries, Operating expense etc)	Between N3M and N4 M	Above N5M	Above N5M	Above N5M
13.	What techniques are used to evaluate the budget?	Periodic performance reports	Periodic performance reports	Periodic performance reports and variance analysis.	Periodic performance reports and variance analysis

Based on the responses made by the four selected banks, the following inferences can be drawn:

i) All the selected banks prepare their budgets on an annual basis.

ii) The Budget Committee members comprise of top, middle and lower level management staff for all the banks with the exception of Savannah Bank which excludes the lower level staff.

iii) The major revisions to be made to the budget, during its implementation stage can only take place with the authorization of the Budget Committee members. An approved budget should not be changed without good reason.

This is a good measure taken and must be commended, as it prevents misuse of the budget.

iv) The forms of budgetary control procedures adopted by the selected banks are:

U.B.A. and Afribank : Feedback control

Union and Savannah : Concurrent and feedback control respectively.

It can be noted here that none of the selected banks made extensive use of the form of preliminary control. The preliminary control procedure of budgetary control is used prior to the implementation of budgets to ensure that resources and personnel are prepared and ready to

start implementing the budget. When the budget is sent from the Head Office, there are instances where in certain units of the bank, either the resources and/or personnel are not adequate to implement the budget. So before these resources/personnel are got, valuable time is lost and the budget targets in these units will not be achieved.

v) All the selected banks ranked their major sources of deposit as follows:

1st: Current deposit

2nd: Savings

3rd: Time deposit

This shows that banks customers keep their money mainly in current accounts, followed by savings account and Time deposit accounts. This may not be unconnected with the prevailing low interest rates paid on deposits currently. The low interest rates does not encourage bank customers to save their money in banks.

All the banks listed agriculture and the industrial/manufacturing sectors as their priority sectors with regards to lending in the form of loans. In addition, Savannah Bank listed the Import and Export sectors and Afribank listed the commerce sectors as their priority areas.

This shows that the bulk of loans given out by commercial banks, go to the manufacturing and the agricultural sectors respectively. These are the two major sectors of the nation's economy that are being developed.

vi) With regards to capital expenditure, U.B.A.and Afribank reported a low figure of "Below =N= 1 million" being spent annually. This is because, for the bank (at branch level) cannot execute any capital expenditure project. It is the Head Office that makes decisions as to whether capital expenditure should be incurred during the year or not. The bank at branch level can only send in their proposals, with regards to capital expenditure. It is the Head Office of the bank that has the final say on these matters.

On the other hand, Union and Savannah banks reported figures of "Between =N= 1 million and =N= 2 million".

viii) The major source of revenue to the commercial banks is in the form of interest received on loans, advances and overdrafts. U.B.A. reported a figure of " Between =N= 4 million and =N=5 million" while the other three banks (Union, Savannah and Afribank) reported figures of over =N= 5 million.

The banks must work hard in these area to generate more revenue, as once this source of revenue is high, the banks will be faring well.

ix) On general expenses, U.B.A. recorded a figure of "between =N= 3 million and =N= 4 million" annually, while the remaining 3 banks (Union, Savannah and Afribank) reported figures of "Above =N= 5 million".

Expenses should be kept on the low side so that banks will be able to have higher profits. As much as possible, banks should be able to curtail expenditure to reasonable limits.

x) The techniques used in evaluating the budget by the banks are the periodic performance reports. This is done on a quarterly basis.

In addition, Savannah and Afribank conduct variance analysis tests to evaluate the budget. The Head Office of U.B.A. and Union banks respectively prepare variance analysis reports for the branches based on the figures and data contained in their periodic performance reports.

The preparation of performance reports on a quarterly basis does not give room for immediate assessment of where deviations to the budget are made and swift corrective action to be taken. So it is advisable that banks should prepare performance reports on a more frequent basis and monitor the budget effectively.

4.4 INTERPRETATION OF DATA

The need for a sound budgetary control in the banking sector is not only important but a necessity in managing the resources of the bank. The current problem facing most banks is how to keep expenditure within limits. Budgetary control is concerned with ensuring that expenditure is carried out in line with the budgeted amount; and the objectives and level of activity agreed upon and envisaged in the budget are achieved.

In order to appraise the budgetary control system being operated by the banks, the four selected banks were given a tabular format with ranges of figures to indicate their budget estimates for each item of expense and revenue. The banks were to compare these budgeted figures with actual output and comment as to whether :

Expenses were underspent or overspent.

Revenues were under realised or over realised.

From the details provided by the selected banks, the variances or deviations of the actual output compared with the budgeted estimates were explored in order to arrive at reasons for such deviations.

TABLE 4.2

NAME OF THE BANK : UNITED BANK FOR AFRICA PLC, ZARIA

BUDGET ESTIMATES FOR THE YEAR 1995

S/N ITEM: EXPENSE/REVENUE	Below N500,000	N500,000 to N1 Million	N1 Million to N3 Million	N3 Million to N5 Million	N5 Million to N7 Million	N7 Million to N10 Million	Above N10 Million	REMARK: EXPENSE: Under/Over Spent REVENUE: Under/Over realised	VARIANCE
1. Interest received on overdrafts									
2. Interest received on advances									
3. Interest received on loans				X				Over realised	+ve N800,000
4. Interest received on agric. loans	X							Under realised	-ve N100,000
5. Interest received on export loans								Not applicable N/A	
6. Commission on Turnover			X					Under realised	-ve N500,000
7. Other Commissions		X						Under realised	-ve N100,000
8. Inter branch interest received						X		Under realised	-ve N1million
9. Inter branch interest paid								N/A	
10. Interest paid on savings			X					Under spent	-ve N500,000
11. Interest paid on fixed deposits			X					Under spent	-ve N500,000
12. Interest paid on current account deposits	X							Under spent	-ve N100,000
13. Staff (personnel) Cost			X					Under spent	-ve N500,000
14. Communication expenses , Postage & telegram telephone,telex etc	X							Under spent	-ve N 50,000
15. Stationery, Printing & related expenses	X							Under spent	-ve N 50,000
16. Repairs & Maintenance of bank equipment	X							Over Spent	+ve N100,000
17. Repairs & Maintenance of bank funiture & fittings	X							Under spent	-ve N100,000
18. Capital expenditure on light equipment								N/A	
19. Capital expenditure on heavy/ security equipment								N/A	

TABLE 4.3

NAME OF THE BANK : UNION BANK PLC, ZARIA

BUDGET ESTIMATES FOR THE YEAR 1995

S/N ITEM: EXPENSE/REVENUE	Below N500,000	N500,000 to N1 Million	N1 Million to N3 Million	N3 Million to N5 Million	N5 Million to N7 Million	N7 Million to N10 Million	Above N10 Million	REMARK: EXPENSE: Under/Over Spent REVENUE: Under/Over realised	VARIANCE
1. Interest received on overdrafts									
2. Interest received on advances									
3. Interest received on loans							X	Over realised	+ve N2 million
4. Interest received on agric. loans		X						Under realised	-ve N500,000
5. Interest received on export loans								Not applicable N/A	
6. Commission on Turnover					X			Under realised	-ve N1million
7. Other Commissions	X							Under realised	-ve N200,000
8. Inter branch interest received								N/A	
9. Inter branch interest paid								N/A	
10. Interest paid on savings			X					Realised	No variance
11. Interest paid on fixed deposits			X					Realised	No variance
12. Interest paid on current account deposits	X							Over spent	+ve N200,000
13. Staff (personnel) Cost							X	Under spent	-ve N1 million
14. Communication expenses , Postage & telegram telephone,telex etc	X							Exactly spent	No variance
15. Stationery, Printing & related expenses	X							Exactly spent	No variance
16. Repairs & Maintenance of bank equipment		X						Exactly Spent	No variance
17. Repairs & Maintenance of bank funiture & fittings	X							Over spent	+ve N500,000
18. Capital expenditure on light equipment	X							Under spent	-ve N100,000
19. Capital expenditure on heavy/ security equipment & Furniture		X						Exactly spent	No variance

TABLE 4.4

NAME OF THE BANK : SAVANNAH BANK ZARIA.

BUDGET ESTIMATES FOR THE YEAR 1995

S/N ITEM: EXPENSE/REVENUE	Below N500,000	N500,000 to N1 Million	N1 Million to N3 Million	N3 Million to N5 Million	N5 Million to N7 Million	N7 Million to N10 Million	Above N10 Million	REMARK: EXPENSE: Under/Over Spent REVENUE: Under/Over realised	VARIANCE
1. Interest received on overdrafts									
2. Interest received on advances									
3. Interest received on loans							X	Under realised	-ve N1 million
4. Interest received on agric. loans		X						Under realised	-ve N500,000
5. Interest received on export loans								Not applicable N/A	
6. Commission on Turnover			X					Under realised	-ve N1million
7. Other Commissions		X						Under realised	-ve N200,000
8. Inter branch interest received								N/A	
9. Inter branch interest paid					X			Over spent	+ve N1 million
10. Interest paid on savings			X					Under spent	-ve N500,000
11. Interest paid on fixed deposits			X					Under spent	-ve N500,000
12. Interest paid on current account deposits								N/A	
13. Staff (personnel) Cost		X						Over spent	+ve N500,000
14. Communication expenses , Postage & telegram telephone,telex etc									
15. Stationery, Printing & related expenses									
16. Repairs & Maintenance of bank equipment									
17. Repairs & Maintenance of bank funiture & fittings			X					Over spent	+ve N500,000
18. Capital expenditure on light equipment									
19. Capital expenditure on heavy/									

TABLE 4.5

NAME OF THE BANK : AFRI BANK ZARIA.

BUDGET ESTIMATES FOR THE YEAR 1995

S/N ITEM: EXPENSE/REVENUE	Below N500,000	N500,000 to N1 Million	N1 Million to N3 Million	N3 Million to N5 Million	N5 Million to N7 Million	N7 Million to N10 Million	Above N10 Million	REMARK: EXPENSE: Under/Over Spent REVENUE: Under/Over realised	VARIANCE
1. Interest received on overdrafts									
2. Interest received on advances									
3. Interest received on loans				X				Realised	No variance
4. Interest received on agric. loans		X						Under realised	-ve N300,000
5. Interest received on export loans								Not applicable N/A	
6. Commission on Turnover			X					Over realised	+ve N3million
7. Other Commissions		X						Realised	No variance
8. Inter branch interest received						X		Under Realised	-ve N2 million
9. Inter branch interest paid								N/A	
10. Interest paid on savings					X			Exactly spent	No variance
11. Interest paid on fixed deposits			X					Exactly spent	No variance
12. Interest paid on current account deposits	X							Exactly spent	No variance
13. Staff (personnel) Cost					X			Exactly spent	No variance
14. Communication expenses , Postage & telegram telephone,telex etc									
15. Stationery, Printing & related expenses		X						Exactly spent	No variance
16. Repairs & Maintenance of bank equipment									
17. Repairs & Maintenance of bank funiture & fittings		X						Exactly spent	No variance
18. Capital expenditure on light equipment									
19. Capital expenditure on heavy/ security equipment & Furniture								Not budgeted for	

NOTE: Each item of expense and revenue was listed, but some of the respondent banks grouped the like items together and gave their response.

The responses made by the banks are attached overleaf and the conclusions drawn from the deviations/variations are given below:

1. Interest received on overdrafts, advances and loans.

U.B.A. : Over realised

Union : Over realised

Savannah : Under realised

Afribank : Exactly realised

This item of revenue was overrealised for some banks, while for others, it was underrealised.

For it to have been overrealised, it implies that more customers took credit facilities during the year than anticipated and budgeted for, and so this is a positive development as the bank was able to generate more in terms of revenue (ie. interest received).

On the other hand, a situation of underrealisation, is due to the fact that fewer customers took loans, advances and overdraft facilities from the bank. This resulted in a lower amount being received in the form of interest. The bank should improve its services in this important revenue generating sector and increase its

credit drive towards attracting more customers into taking loans.

2. Interest received on agricultural loans.

U.B.A. : Under realised

Union : Under realised

Savannah : Under realised

Afribank : Under realised

All the banks reported that the revenue received on agricultural loans was lower than what was budgeted for.

This can be attributed to the apathy being shown to the agricultural sector these days by government. Agricultural inputs are difficult to obtain as such, not many people are venturing into large scale agricultural activities.

3. Commission on Turnover.

U.B.A. : Under realised

Union : Under realised

Savannah : Under realised

Afribank : Over realised

All the banks reported that this item was underrealised, with the exception of Afribank, which reported a situation of overrealisation.

A situation of underrealisation of the item "Commission on Turnover" is as a result of reduction in anticipated operations. The reverse is the case for overrealisation. Commission on Turnover is charged by the banks, when withdrawals are made by customers from their current account balances.

The banks were unable to attract huge deposits and as such withdrawals were in small amounts. This led to a situation of under realisation in this aspect. So banks should gear up efforts to mobilise more funds in order to increase the amount received as Commission on Turnover.

4. Interbranch interest received.

U.B.A. : Underrealised

Union : Not applicable

Savannah : Not applicable

Afribank : Underrealised

With the exception of U.B.A.and Afribank PLC the other two banks (Union and Savannah banks respectively) had this item marked "Not applicable" (ie. N/A).

U.B.A. and Afribank PLC recorded an underrealisation in this area. This could be due to the fact that not much funds were deposited in the bank by customers. This therefore created a situation whereby the bank did not

have much funds (left over after investing) to lend to the Head Office. Therefore, the inter-branch interest received was less (ie. underrealised).

5. Interbranch interest paid.

U.B.A.	:	Not applicable
Union	:	Not applicable
Savannah	:	Over spent
Afribank	:	Not applicable

With the exception of Savannah Bank, all the other banks marked "Not applicable" against this item.

In Savannah Bank, this item was overspent, compared with the budgeted amount. This shows that the bank had to borrow money often from the Head Office to meet up customers' demands when the bank had a cash shortfall or temporary liquidity problems.

The bank had to borrow more money than was envisaged or budgeted during the year and this accounted for the higher interest rate payment (ie. overpaid).

6. Interest paid on savings accounts.

U.B.A.	:	Under spent
Union	:	Exactly spent
Savannah	:	Under spent
Afribank	:	Exactly spent

7. Interest paid on fixed deposit accounts.

U.B.A.	:	Under spent
Union	:	Exactly spent
Savannah	:	Under spent
Afribank	:	Exactly spent

KASHIM IBRAHIM LIBRARY

The above analysis shows that U.B.A. and Savannah banks respectively spent less on interest charges on savings and fixed deposits when compared with the budgeted amount. This can be attributed to the fact that customers had less amounts in their savings and fixed deposit accounts. This is not unconnected with the present lull in the economy and also the low rates on savings and fixed deposits offered by banks to customers. This does not encourage customers to save their money in the banks. So much of the money is outside the banks vaults and in circulation.

Union Bank and Afribank recorded no difference between the amount budgeted for and actual amount paid

with respect to interest on savings and fixed deposit accounts.

8. Interest paid on current account deposits.

U.B.A. : Underspent

Union : Overspent

Savannah : Not applicable

Afribank : Exactly spent

In U.B.A. this item was underspent. This indicates that not much money was left by customers in their current accounts. Thus the interest paid on current account deposits was lower than what was budgeted for.

On the other hand, Union Bank overspent on this item. This shows that much more money than was anticipated was left in customers current accounts and this led to a higher amount being paid as interest.

There was no deviation in the amount budgeted for and the actual amount paid as interest on current account deposits in Afribank.

9. Staff (personnel) costs.

U.B.A. : Underspent

Union : Underspent

Savannah : Overspent

Afribank : Exactly spent

Both U.B.A. and Union Bank underspent the amounts budgeted for this item. This was due to trimming down of the staff strength during the year.

However, Savannah Bank recorded an over expenditure in this area, while Afribank recorded no variance in staff (personnel) costs.

10. Communication expenses,Stationery and other related expenses.

U.B.A. : Under spent

Union : Exactly spent

Savannah : See note below

Afribank : Exactly spent

NOTE: Savannah Bank grouped this item alongside Repairs and Maintenance and Capital Expenditure. So, for the time being no analysis will be made for Savannah Bank, till the end.

With reference to U.B.A., this item was underspent. So the bank was able to curtail expenditure in this area.

While for Union Bank and Afribank, exactly what was budgeted for this item was spent.

11. Repairs and maintenance of bank equipment.

U.B.A. : Overspent

Union : Exactly spent

Afribank : Exactly spent

The item of expenditure was overspent for U.B.A. Therefore, it is important to investigate and see if the personnel handling these bank equipment are using the equipment with the adequate care required. As proper and careful handling of equipment will mean less expenditure in terms of repairs and also the equipment can be used over a long period of time. In addition, the prices of components/materials used in repairing and maintenance could have escalated astronomically during the year, and this must have caused an over expenditure in this area.

In the case of Union Bank and Afribank respectively, this item was exactly spent.

12. Repairs of bank furniture & fittings.

U.B.A. : Under spent

Union : Over spent

Afribank : Exactly spent

KASU M. IBRAHIM LIBRARY

13. Capital expenditure on light equipment, heavy/security equipment and furniture.

U.B.A. : Not applicable

Union : Under spent for light equipment and Exactly spent for heavy/security equipment and furniture.

Afribank : Under spent for light equipment and for heavy/security equipment and furniture, these items were not budgeted for during the year. So therefore, there was no expenditure recorded.

U.B.A. did not incur any capital expenditure on these items during the year under consideration. Whereas, Union Bank underspent and exactly spent respectively, on these capital expenditure items. Since these expenditure are within the limits, they are tolerable.

Savannah Bank grouped the following expense items together:

i) Communication expenses, Stationery etc.

ii) Repairs and maintenance

iii) Capital Expenditure.

Overall, there was an over expenditure in this sector. It is difficult to pinpoint and analyse in this case, where the deviation occurs. However, the bank will be in a better position to trace the item(s) causing the variance and take appropriate measures to forestall future occurrence of expenditure exceeding the budgeted amounts.

TABLE 4.6 ANALYSIS OF VARIANCES

S/No.	EXPENSE/REVENUE	U.B.A.	UNION	SAVANNAH	AFRIBANK
1	Interest received on overdrafts, advances and loans.	+ve N800,000	+ve N2m	-ve N1m	No variance
2	Interest received on agricultural loans.	-ve N100,000	-ve N500,000	-ve N500,000	-ve N300,000
3	Commission on Turnover.	-ve N500,000	-ve N1m	-ve N1m	+ve N3m
4	Interbranch interest received.	-ve N1m	N/A	N/A	-ve N2m
5	Interbranch interest paid.	N/A	N/A	+ve N1m	N/A

6	Interest paid on savings.	-ve N500,000	No variance	-ve N500,000	No variance
7	Interest paid on fixed deposits.	-ve N500,000	No variance	-ve N500,000	No variance
8	Interest paid on current accounts.	-ve N100,000	+ve N200,000	N/A	No variance
9	Staff (personnel) costs.	-ve N500,000	-ve N1m	+ve N500,000	No variance
10	Communication expenses, stationery & other related expenses.	-ve N50,000	No variance	See No. 13	No variance
11	Repairs & Maintenance of bank equipment.	+ve N100,000	No variance	See No. 13	No variance
12	Repairs of bank furniture & fittings.	-ve N100,000	+ve N500,000	See No. 13	No variance

13	Capital expenditure on light equipment, heavy/security equipment & furniture.	**N/A**	**No variance**	Total of Nos. 10,11,12 &13 =+ve N800,000	Not budgeted for

KEY:

+ve : Positive Variance

-ve : Negative Variance

N1m : N1 million etc.

CORRECTIVE ACTION/SUGGESTIONS

Based on the above Table of Variances, the following observations could be made so as to assist in taking corrective action where necessary.

NOTE: +ve variance signifies a favourable situation.

-ve variance signifies an unfavourable situation.

473662

1. The banks should improve on their credit/lending policies in order to attract more customers. The cumbersome procedures in getting loans from banks should be eliminated. This will improve and enhance the banks revenue generating base in terms of interest received.

2. The present situation can be improved upon, if government intervenes and gives more support to the agricultural sector. Then only, agricultural loans will be demanded for by customers of banks, thereby improving the revenue base of the bank. i.e. in terms of interest received on agricultural loans.

3. The banks should mobilise more funds in order to improve the situation, with regards to Commission on Turnover.

4. The banks should mobilise more funds, so that they will have funds to loan out to the Head Office. This will amount to an increase in the amount received as inter branch interest.

5. The banks should mobilise more funds in order to avoid the frquency of going to the Head Office to collect funds, when there is a cash shortfall. The more the bank borrows from the Head Office , the higher the inter branch interest payment.

6. The banks should revise their interest rates on savings account to encourage customers to lodge their money in the banks.

7. Same as -6- above.

8. Same as -6- above.

9. The banks should ensure that staff are fully

employed and there are no idle staff, this will help in cutting down personnel costs.

10. This item of expenditure (Communication expenses,Stationery etc.), is difficult to control. Those who incur expenditure in this area should exercise prudence in this area, to curtail expenditure.

11. Staff should be well trained in the handling of bank equipment. As proper handling of equipment reduces or minimises the repairs to be made to such equipment.

12. Same as No. 11 above, in addition good quality furniture and fittings should be purchased so that they will last long.

13. Only when it is absolutely necessary, should capital expenditure be incurred. As this is an area of huge expenditure.

To conclude, it must be emphasized that just because an item of expense has been under spent does not imply that all is well with that unit. The bank has to investigate and see if the unit (or budget centre) concerned is functioning (or working) at full capacity.

If the unit is functioning below its normal capacity, then this will automatically lead to under expenditure in that unit. So this has to be investigated.

On the other hand, if a unit (or budget centre) is functioning at full capacity and it records under expenditure or exact expenditure in relation to expenses, then this is a sign of efficiency and prudency in controlling costs and the bank staff are to be commended in this respect.

In the same vein, when there is expenditure and it is overspent, it should not be given a negative outlook. It should be investigated first. It may have occurred because more work load was assigned to the unit (budget centre) during the year than was envisaged during the budget preparation stage. This will lead to increase in expenditure for the unit. In addition, a sudden (upward) change in prices of goods and services in the economy will contribute to a situation of over expenditure.

For budgetary control to be effective, there must be continuous measurement of actual expenditure and relevant output and comparing the same with the budgeted amount. Variances should be promptly analysed and brought to the attention of the officer or Head of the Budget Department, together with relevant information or reasons why such events occurred.

Therefore, an essential requirement of a good budgetary control system is to set up in the bank an efficient data collection machinery to collect both input and output at the budget centre. This is to give adequate and timely information, as failure to report on time to the Head of the Budget Department on the implementation of the budget and performance achieved will weaken the budgetary control system.

It is important to have an efficient data collection machinery in the bank, backed up with comprehensive accounting systems that are manned by well trained and motivated bank staff. This will ensure the proper implementation of a budgetary control system and the benefits to be derived by the bank are numerous.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

This is the concluding chapter of this dissertation. In this chapter, an effort will be made to summarise what has been carried out in the dissertation and also to give recommendations and possible solutions to the budgetary control problems experienced by commercial banks.

This research study had set out to answer five specific research questions as stated in chapter one. The research questions are:

i. How are budgets prepared and implemented in commercial banks?

ii. What are the forms of budgetary control procedures observed in commercial banks?

iii. What are the post-implementation budget review techniques adopted by commercial banks to evaluate the budget?

iv. What are the problems associated with budgetary control in commercial banks?

v. What are the solutions to these problems?

In order to answer the above mentioned questions, a review of the available literature was carried out to get acquainted with budgetary control in general. This was done in chapter two.

In the third chapter, the method of collecting data and the means of collecting the relevant data from the selected firms was discussed.

In the fourth chapter, the presentation, analysis and the interpretation of the data collected was carried out.

The general economic situation is changing rapidly and becoming more hostile. This has forced banks to face stiff competition amongst themselves. Banks slow to adapt to this competition have been known to fail. Part of the necessary adaptive process has been the introduction of more careful planning of management decisions in banks with special regard to budgetary control.

In a changed economic environment, the practice of budgetary control in commercial banks has become very essential. To survive in the more competitive and more hostile environment, commercial banks must plan for the things that are likely to go wrong and protect themselves against the many possible disasters that could emanate from the economy.

In this study, it was noticed that the control aspect of budgeting is an important feature of budgeting. Also it is an aspect most frequently encountered by the staff of the banks. The comparison of actual results with planned results and reporting on the variations sets a control framework which helps expenditure to be kept within agreed limits.

An important part of budget preparation is consideration of the importance of goal definition, and individual aspirations and goals. If a budgetary control system is not accepted by the people who have to operate it, they may hamper and obstruct the information flow so that realistic planning and control decisions will be difficult to take. Therefore, for the budgetary process to be successful, it requires top management support, co-operative and motivated middle management and staff and well organized reporting systems, who will in turn direct lower level management staff in their duties towards achieving the goals set out in the budget for the benefit of the bank.

Performance reports constitute an important part of the budgetary control system. These reports serve to motivate staff to perform in conformity with expectations. Also, they signal to the higher authorities of the bank, when operations are not

proceeding according to the plans. A budgetary control system should be based on a performance reporting system that provides a continuing evaluation of actual results compared with plans. Planned goals (or budgeted goals) are used to assess actual performance. Performance reports should include all significant aspects of operations and be consistent with assigned responsibilities. To be effective, performance reports should be tailored to the organizational structure of the bank, should be simple, accurate and timely.

In this study, it was noted that performance reports are widely used by banks to evaluate the budget and monitor the implementation phase of the budget.

5.2 CONCLUSION

The technique which embraces all activities of a business and serves to support the key aspects of the management control process is budgetary control. The importance of the technique in relation to information for management may be judged by the use of the budget to relate objectives and policies to managerial responsibility, and facilitate accountability and overall control. Budgetary control provides relevant information.

A central problem in developing and applying a budget effectively is selecting appropriate concepts and techniques for different situations. In general, as an enterprise grows, changes, and becomes more complex, there is the continuing problem of discarding less useful approaches and replacing them with more appropriate ones. As such, banks should revise both the budgeting process and the accounting system as the enterprise changes. It is not uncommon to find a situation where these two systems (i.e. the budgeting system and accounting system respectively) are internally inconsistent and do not effectively serve the needs of the bank.

5.3 LIMITATIONS OF THE STUDY.

The main difficulty and the major limitation to this study was the non- disclosure of the actual budget figures of the various budgets of the selected banks. The bank officials described the budgets as classified information. Though it was explained to the bank officials that the actual budget figures would not be quoted in the dissertation, but still the officials declined to provide such information. However, budget formats were given to the researcher and it was from this that studies were conducted.

5.4 RECOMMENDATIONS

The essence of budgetary control in commercial banks is to ensure that the budget is being implemented in the right direction. Budgetary control is performed continuously as the budget is being implemented.

In order to achieve the goals and standards set in a budget, commercial banks must adopt proper budgetary control measures to achieve these goals and standards. In the light of this study, the following recommendations or suggestions are proffered in the area of budgetary control in commercial banks:-

a. The nature of the budgetary control system is governed by the size of the business. In a small branch of the a bank, one person may be assigned the task of budgetary control and he can rely upon his own observations to exercise control and monitor the activities of the branch to ensure that they conform to the standards set in the budget of the bank. In a large branch of a bank, management becomes a complex matter involving many people with varying skills and differing attitudes. So, there should be more than one person assigned to the aspect of budgetary control. Personal observation must give way to a large element of control on the

basis of reported information. Budgetary control provides relevant information on what the business is trying to achieve and how it expects to transform its plans into reality. Therefore, budgetary control approaches in a bank must be tailored to the characteristic of the operations of the bank and its organizational structure.

b. It is suggested that the budget of a bank should be prepared by those responsible for its application and achievement in the bank. Those able to take active part in formulating the budget are likely to show greater interest, commitment and motivation to achieve the budget plans agreed upon.

c. The detailed scrutiny of actual results against the budgeted results should be done on a weekly basis, instead of the present quarterly basis. This is to ensure that where action is necessary, managers of the unit are advised so that action can be taken in good time to curtail the deviations or variances. It must be noted that the speedy production of budgetary control statements/performance reports and immediate investigation of revealed variances provide the

best basis for bringing operations into line with the budget.

d. For effective budgetary control to be achieved in banks, information must be received on a frequent basis. The frequency with which reports are produced depends on the extent effective action can be taken as a result of interpreting the information contained in the reports. To enable comparative information to be extracted from the budget for proper control, it is suggested that the budget should be analyzed by control periods. The control period selected should reflect significant variations in performance and make reasonable allowance for the random effect of short-period fluctuations which can average out when larger control periods are taken. The main aim is to produce statements which generate information for control periods of equal working duration so that comparable data may aid the interpretative process of the budget. The system to deal with the budget input and output should be flexible to ensure that a realistic response to the needs of the management of the bank and the changing business environment.

e. To ensure that plans receive adequate consideration in the preparatory stages and that budgets are available in good time for the commencement of the budget period in the bank, a time-table should be agreed for budget preparation. This will avoid a situation in which budgets are prepared hastily and fraught with errors/omissions. The length of time taken to prepare the budget varies according to the branch size of the bank, the details required and the necessity to coordinate with other plans.

f. The bank should assign budget responsibility to competent officers. To establish a proper budgetary control system, it is often necessary for the bank to prepare an organizational chart of the bank and sort out overlapping operations and overlapping responsibilities. Budget responsibility is bound up with the organizational structure of the bank and the management control process and cost responsibility. Too much emphasis cannot be placed upon the need for having senior bank officials contribute to the preparation of the budget. However, work should not be left to clerical staff who can only assemble figures from

past records and make guesses about the future, since they do not know what the real budget plans of the top management are. Nor should the job be left solely with the accountant. The accountant's role in budgeting is that of an adviser to other departments/units of the bank. In this light, he can perform a valuable service to management.

g. The behavioural aspects of budgeting and budgetary control are very important. It is known that human behaviour is very difficult to predict. With respect to budgeting, the budget is not considered by staff as a neutral, objective, technical process adopted in order to achieve the goals and objectives of the bank. Staff regard the aspect of budgetary control as a pressure instrument rather than a procedure to assist the bank's management to do a better job. In order to avoid this conflict, banks should mould and design the budget process to be participative and one that encourages initiative and responsibility. In this way, the budget and the budgetary control process will not be viewed by staff as a pressure device and in addition they will be motivated to work and achieve the goals and standards set in the budget.

h. It was noted that the banks that were studied adopted mainly the feedback control system of evaluating the budget. It is vital for a bank to adopt all the three forms of budgetary control in the bank namely:- feedforward, concurrent and feedback control. These three forms of budgetary control if adopted by banks will go a long way in ensuring proper implementation of the budget.

i. It is recommended that in budgetary control in banks, flexibility should be allowed to a certain degree. Planning and implementation of budgets and budgetary control requires a high level of management commitment. Broad problems of leadership, motivation, judgement and technical competence are generally encountered. The budget of a bank should be viewed as a guideline to action. There must be strong management commitment to attain the budgeted goals and objectives. On the other hand, the plans must not be administered inflexibly. One of the most important facets of dynamic management of the budget is rational flexibility designed to take advantage of all favourable opportunities and minimize the impact of unfavourable events. The willingness to listen, to

evaluate alternatives not covered in the original budget, and to change positions are elements of management flexibility. No budget plan can anticipate all events, therefore, a dynamic approach is needed to cope with a dynamic environment.

j. Bank staff should at frequent intervals be sent on staff training courses related to budgeting so that they can handle budgeting tasks assigned to them efficiently and skillfully. Also, bank staff should have better remuneration. Bank staff will retain their jobs and there will be a retardation in the mobility of staff, if their pay and conditions of service are attractive.

It is hoped that the above recommendations will help to solve the problems of budgetary control in commercial banks and also improve the efficiency of operations of commercial banks and thereby ensure the survival of these banks in the banking industry.

BIBLIOGRAPHY

ADEKANYE F. (1986). The Elements of Banking in Nigeria. 3rd ed. Graham Burn Publishers.

ALPINE T.S. (1976). The Basic Art of Budgeting. Business Books Ltd., London.

AMEY L.R. (1979). Budget Planning and Control Systems. Pitman Publishers London.

ASCH D.C. (1983). Cost Accounting and Budgeting. Macdonald and Evans Ltd.

BELLIS-JONES R. (1992). Budgeting and Cost Management: A route to continuous improvement. Management Accounting. April 1992, 70(4):36-37.

BIERMAN H., Dykman T. & Hilton R. (1990). Cost Accounting: Concepts and Managerial Applications. New York: Macmillan.

BROWNELL P. (1982). A Field Study Examination of Budgetary Participation and Locus of Control. Accounting Review, 57:766-776.

BUNGE W.R. (1968). Managerial Budgeting for profit improvement. McGraw-Hill, New York.

CHERRINGTON J.O., Hubbard E.D. & Luthy D.H. (1985). Cost and Managerial Accounting, Wm. C. Brown Publishers.

COPELAND R.M. & Dascher P.E. (1978). Managerial Accounting, John Wiley and Sons Inc.

DEAKIN E.B. & Maher M.W. (1987). Cost Accounting. Prentice-Hall, Englewood Cliffs, New Jersey.

DEMSKI S.S. & Feltham G.A. (1978). Economic Incentives in Budgetary Control Systems. Accounting Review. 53:336-357.

DOMINIC G.F. & Louderback J.G. (1985). Managerial Accounting. Boston : Kent Publishing.

DOYLE E.P. (1987). Practice of Banking. Macdonald & Evans Ltd., Plymouth, U.K.

FISHER P.M. & Frank W.G. (1985). Cost Accounting: Theory & Applications, South-Western Publishers.

GALWAY A. (1986). Standard Costing & Control by Variance Analysis. The Nigerian Accountant. 19(2):27-31.

GARRISON R.H. (1985). Managerial Accounting : Concepts for Planning, Control and Decision - making. Texas:Business Publications.

GRAVES H.F. & Hoffman L. (1980). Report Writing. 4th ed., Englewood Cliffs, N.J. Prentice-Hall.

GRAY J. & Ricketts D. (1982). Cost and Managerial Accounting. McGraw-Hill, Inc.

HARRIS P. (1995). Accounting for values - Budgeting & Control. Management Accounting. June 1995, 73(6):36-37.

HARTLEY R.V. (1986). Cost and Managerial Accounting. 2nd ed. Allyn and Bacon, Inc., Massachusetts, U.S.A.

HEITGER G.A., Hilton R.W. & Gordon P.N. (1990). Budgeting: Profit Planning & Control. 5th ed., Prentice Hall Int. Inc., U.S.A.

HOPWOOD A. (1978). Accounting & Human Behaviour. Prentice Hall Inc., Englewood Cliffs, New York.

HORNGREN C.T. & Foster G. (1987). Cost Accounting: A Managerial Emphasis. Englewood Cliffs, N.J.

HOUCK L.D. (1979). A practical guide to budgetary and management control systems. Lexington Book Publishers.

KAPLAN R. (1982). Advanced Management Accounting. Englewood Cliffs, N.J., Prentice-Hall.

KNIGHT W.D. & Weinwurm E.H. (1974). Managerial Budgeting. Macmillan Publishers, New York.

LUCEY T. (1989). Costing. D.P.Publications Ltd., London.

MAGEE R.P. (1986). Advanced Managerial Accounting. New York: Harper & Row.

MATZ A. & Usry M.F. (1984). Cost Accounting: Planning and Control. Cincinnati: South-Western Publishing.

McENTEGART R.C. (1980). Costing and Budgetary Control. Lancashire Polytechnic Publishers.

MILLER E.L. (1982). Responsibility Accounting & Performance Evaluation. Van Nostrand Reinhold, New York.

MONTOGOMERY A.T. (1979). Management Accounting Information. Reading Mass.: Addison-Wesley.

NDAGI J.O. (1984). Essentials of Research Methodology for Nigerian Education. University of Ibadan Press.

NEVEN R.P. (1985). Fundamentals of Managerial Finance. South-Western Publishers.

NEWING R. (1994). Better budgeting & forecasting for businesses. Management Accounting. November 1994, 72(10):43-44.

NEWING R. (1994). Advanced budgeting requires an advanced management system. Management Accounting, December 1994, 72(11):28-29.

NWANKWO G.O. (1980). The Nigerian Financial System. Macmillan Publishers, London.

OJO A.T. & Adewunmi W. (1982). Banking and Finance in Nigeria. Graham Burn, Leighton Buzzard, U.K.

OKIGBO P.N.C. (1981). Nigeria's Financial System: Structure and Growth. Longman Group, Harlow, Essex, U.K.

OSUALA E.C. (1987). Introduction to Research Methodology. Africana-Fep Publishers Ltd., Onitsha, Nigeria.

POGUE G. (1989). Understanding Budgets and Budgetary Control.
The Nigerian Accountant. 22(2): 33-35.

SHERWOOD F.P. (1954). The management approach to budgeting. International Institute of Administrative Sciences, Brussels.

STEDRY A.C. (1967). Budgetary Control and Cost Behaviour. Markham Chicago.

SWEENY A. & Rachlin R. (1981). Handbook of Budgeting. John Wiley & Sons, New York.

THOMAS W.E. (1983). Readings in Cost Accounting, Budgeting and Control. 6th ed., (Cincinnati : South Western Publishing), Reading No.6, "Defining Goals - A Behavioural Approach", by Robert L. Morasky. pp. 85-94.

THORNTON N. (1978). Management Accounting. William Heinemann Ltd. London.

VAN HORNE J.C. (1986). Financial Management and Policy. 7th ed. Prentice - Hall, Inc., Englewood Cliffs, N.J., U.S.A.

WALD J. (1984). Bigg's Cost Accounts. 11th ed., Pitman Publishing, London.

WARREN C.S. & Fess P.E. (1986). Principles of Financial and Managerial Accounting. South Western Publishers.

WELSCH G.A., Hilton R.W. & Gordon P.N. (1990). Budgeting : Profit Planning & Control. 5th ed., Prentice - Hall Int. Inc., U.S.A.

WILLSMORE A.W. (1973). Business budgets in practice. 5th. ed., Pitman Publishers, London.

APPENDIX I : QUESTIONNAIRE I

Department of Accounting,
Institute of Administration
Ahmadu Bello University,
P.M.B. 1013,
Zaria.

Dear Sir/Madam,

**BUDGETARY CONTROL IN COMMERCIAL BANKS:
A STUDY OF SELECTED BANKS.**

I am a post graduate student in the Department of Accounting, Ahmadu Bello University, Zaria.

As part of the fulfilment of the Master of Science degree, I intend to conduct a research on the above topic.

The attached questionnaire is designed to get information on the Budgetary Control system in operation in the banks, to identify the related problems associated with it and proffer solutions to these problems.

All information obtained shall be treated in confidence and used for the research purpose only.

I am therefore seeking your full cooperation in answering the attached questionnaire and the timely return at your earliest convenience.

Thank you very much.

Yours faithfully,

Saaji M. Silva.

QUESTIONNAIRE

Please tick the appropriate answer in the box provided, and please write freely in the space provided.

1. Name of the commercial bank:

_____

_____

2. How often are budgets prepared by the bank?

(a) Annually ☐

(b) Semi-annually ☐

(c) Quarterly ☐

3. In the preparation of the budget, who are the members of the budget committee?

(a) Top management alone ☐

(b) Both top and middle management ☐

(c) Top, middle and lower level management ☐

4. During the implementation process of the budget, if major revisions are to be made due to major changes that have occured, who are involved in the budget revision?

(a) All members of the budget Committee ☐

(b) Only those members of the Committee whose department is affected by the major revision ☐

5. What form(s) of budgetary control procedures are adopted by the bank?

(a) Preliminary control ☐

(b) Concurrent control ☐

(c) Feedback control ☐

KASHIM IBRAHIM LIBRARY

6. Which of the following items constitute the bank's major source of deposit.

(Please rank it as, 1st, 2nd, 3rd)

(a) Current deposit ☐

(b) Time deposit ☐

(c) Savings ☐

7. What are the bank's priority sectors with regards to lending in the form of loans?

   (a) Agriculture

   (b) Industries

   (c) Import & Export activities

   (d) Others Please specify

8. How much funds are relesed as agriculture loans by the bank annually?

   (a) Below N1 million

   (b) Between N1 million and N2 million

   (c) Between N2 million and N3 million

   (d) Between N3 million and N4million

   (e) Between N4 million and N5 million

   (f) Above N5 million.

9. How much funds are relased as loans to the industrial sector annually?

   (a) Below N1 million

   (b) Between N1 million and N2 million

   (c) Between N2 million and N3 million

   (d) Between N3 million and N4 million

   (e) Between N4 million and N5 million

   (f) Above N5 million

10. How much funds are released as loans to the import-export sector annually?

   (a) Below N1 million

   (b) Between N1 million and N2 million

   (c) Between N2 million and N3 million

   (d) Between N3 million and N4 million

   (e) Between N4 million and N5 million

   (f) Above N5 million

11. How much funds are spent on capital expenditure projects annually by the bank?

(a) Below N1 million

(b) Between N1 million and N2 million

(c) Between N2 million and N3 million

(d) Between N3 million and N4 million

(e) Between N4 million and N5 million

(f) Above N5 million

12. How much is received by the bank annually as interest on loans, advances and overdrafts?

(a) Below N1 million

(b) Between N1 million and N2 million

(c) Between N2 million and N3 million

(d) Between N3 million and N4 million

(e) Between N4 million and N5 million

(f) Above N5 million

13. How much is spent by the bank annually on general expenses? (i.e staff salaries, operating expenses etc.)

(a) Below N1 million

(b) Between N1 million and N2 million

(c) Between N2 million and N3 million

(d) Between N3 million and N4 million

(e) Between N4 million and N5 million

(f) Above N5 million

14. What techniques are employed by the bank to evaluate the budget?

(a) Personal evaluation

(b) Periodic performance reports

(c) Ratio analysis

(d) Variance analysis

(e) Others (Please specify)

QUESTIONNAIRE II

APPENDIX 2

NAME OF THE BANK :

BUDGET ESTIMATES FOR THE YEAR 1995

S/N ITEM: EXPENSE/REVENUE	Below N500,000	N500,000 to N1 Million	N1 Million to N3 Million	N3 Million to N5 Million	N5 Million to N7 Million	N7 Million to N10 Million	Above N10 Million	REMARK: EXPENSE: Under/Over Spent REVENUE: Under/Over realised	VARIANCE
1. Interest received on overdrafts									
2. Interest received on advances									
3. Interest received on loans									
4. Interest received on agric. loans									
5. Interest received on export loans									
6. Commission on Turnover									
7. Other Commissions									
8. Inter branch interest received									
9. Inter branch interest paid									
10. Interest paid on savings									
11. Interest paid on fixed deposits									
12. Interest paid on current account deposits									
13. Staff (personnel) Cost									
14. Communication expenses , Postage & telegram telephone,telex etc									
15. Stationery, Printing & related expenses									
16. Repairs & Maintenance of bank equipment									
17. Repairs & Maintenance of bank funiture & fittings									
18. Capital expenditure on light equipment									
19. Capital expenditure on heavy/ security equipment & Furniture									

APPENDIX 3

BUDGET WORK SHEET FOR 19-----/ 19----- FINANCIAL YEAR.

INCOME

APPENDIX 3

INT. RECD. ON LOANS, ADVANCES, OVERDRAFTS, DISCOUNTS	CODES	CURRENT YEAR BUDGET	COMMITMENT TO DATE (HALF YEAR)	PROJTED. COMMT. TO 31/03/95	BUDGET FOR NEXT YEAR	VARIANCE %	COMMENTS
INTEREST RECD O/DRAFT	62001						
INT RECD ADVANCES	62002						
INT RECD ON LOANS	62003						
INT RECD NDE	62004						
INT RECD DISCOUNT	62005						
INT RECD CONSORTIUM LOANS	62006						
INT RECD AGRIC LOANS	62007						
INT RECD EXPORT LOANS	62008						
OTHER INT RECD ON LOANS,ADV,AND DISC	62009						
OTHER INT.RECD.ON TREASURY OPERATION	62309						
RENTAL INCOME ON LEASE	62326						
SUB-TOTAL							
COMMISSION ON TURNOVER							
C.O.T.	62101						
OTHER COMMISSIONS	62119						
OTHER COMM. ON FINANCE SERVICES	62319						
SUB--TOTAL							
COMMISSIONS ON BONDS, GUARANTEES & INDEMNITIES							
COMM. AVAL GUARANTEES	62121						
COMM. BONDS I/C/E	62122						
OTHER COMM. CONTIGENT LIAB.	62129						
SUB. TOTAL							
BILLS FOR COLLECTION INWARD AND OUTWARD							
COMMISSION OUTWARD BILLS	62111						
COMMISSION INWARD BILLS	62112						
SUB-TOTAL							
CREDIT INWARDS/OUTWARDS							
COMM. ON DOCUMENTARY CREDIT	62113						
COMM. ON DOCUMENTARY EXPORT	62114						
SUB-TOTAL							

COMMISSION TRANSFER IN/OUT NIGERIA EXP.							
COMM.INWARD TRANSFER	62141						
COMM. ON SALES & PURC. OF T/CHEQUES	62142						
EXCHANGE GAIN	62143						
COMM. SALES & PURC. OF CURRENCY	62144						
GAINS ON CURRENCY REVALUATION	62145						
COMM. ON BIDS, TENDER, ADV(BTA)	62146						
OTHER COMM. ON EXCH TRANSFER	62149						
SUB-TOTAL							
COMMISSION ON TRANSFER\INTERNAL							
BANK-DRAFT -CERT CHEQUES	62131						
MT\TT IN NIGERIA	62132						
SUB TOTAL							
COMM. ON OTHER TRANSACTIONS							
ARR. S/ECH. T/AC	62201						
SAFE CUSTODY	62202						
NIGHT SAFES	62203						
TAKING SECURITIES	62204						
STANDING ORDERS	62205						
P.T.T. CHARGES (TO CUSTOMERS)	62206						
OVERS IN TILLS	62207						
STOPPED CHEQUES	62208						
SPECIAL CLEARING	62209						
OTHER OPERATIONAL INCOME	62210						
AGENCY /CORRESPONDENCE CLEARING	62211						
ADMINISTRATIVE FEES	62212						
INTERBRANCH INTEREST RECEIVED	62301						
INTERBRANCH INTEREST PAID	62821						
INTEREST ON C.B.N. MAIN ACCOUNT	62307						
INTEREST ON OVERSEAS NOSTRO	62308						
GENERAL ACCEPT. DISC COMM.	62311						
COMM. INSURANCE AGENCY	62312						
SYNDICATED GGUARANTEED COMM.	62313						
ADVISORY SERVICES COMM.	62314						
BANKERS ACCEPT./DISC. COMM.	62315						
ARR. FACILITY.	62321						
INTEREST BANK ACCEPT. DISC	62322						
INTEREST ON DEVELOPMENT STOCK	62323						
MANAGEMENT FEE	62324						

COMMITMENT FEES	62325
OTHEER FINANCIAL SERV. INT.& FEES	62329
NMB DIRECTOR FEE	62501
RIVER STATE VEG. OIL CO. DIRECT FEE	62508
COMPUTER TIME SOLD	62601
REGISTRAR FEES	62602
TRUSTEES INCOME	62604
F/A DISPOSAL GAINS	62605
RENT RECEIVED (BANK PREM)	62606
RENT RECEIVED (RES. PREM)	62607
OTHER INCOME	62609
SUB TOTAL	
TREASURY INCOME	
INT. REC. CALL PLACING	62302
INT. REC. TERM BORROWING	62303
INT. REC. TREASURY BILLS	62304
INT. REC. TREASURY CERTIFICATE	62305
INT. REC. CERT. OF DEP. ISSUED	62306
INT. ON STABILISATION SECURITIES	62310
INT. PAID. CALL PLACING	61831
INT. PAID. TERM BORROWING	61832
INT. PAID. CERT OF DEP. BOUGHT	61833
INT. PAID. CERT. COD BOUGHT	61841
INT. PAID. C.B.N. MAIN	61851
SUB TOTAL	
TOTAL INCOME	
LESS COST OF RESOURCES PAID OUT AS INTEREST ON DEPOSITS	
INT. PAID. SAVINGS	62801
INT. PAID STAFF	62802
INT. PAID ON FIXED DEPOSIT	62803
INT. PAID C/BUS.	62804
INT. PAID C/PRIVATE	62805

INT. PAID C/GOVT.	62806							
INT. PAID C/BR.	62807							
INT. PAID C/EXT.	62808							
INT PAID C/EMB.	62809							
INT. PAID C/ASSOCIATION	62810							
INT. PAID C/NDE	62811							
PREMIUM DEPOSIT INSURANCE	62812							
OTHER INT. PAID ON COMM. OPERATION	62819							
TOTAL INTEREST PAID								
COMMERCIAL PROFIT								
LESS GENERAL EXPENSES								
NET PROFIT/(LOSS)								

APPENDIX 4

BUDGET WORKSHEET FOR 19----/ 9---- FINANCIAL YEAR.

GENERAL EXPENSES.

APPENDIX 4

STAFF COST	CODES	CURRENT YEAR BUDGET	COMMITMENT TO DATE (HALF YEAR)	PROJTED. COMMT. TO 31/03/95	BUDGET FOR NEXT YEAR	VARIANCE %	COMMENTS
BASIC SALARY	61001						
OVER TIME	61002						
OTHER STAFF EMOLUMENTS	61009						
HOUSING ALLOWANCE	61011						
WATER,ELEC. GAS -RESIDENTIAL	61018						
OTHER TAXABLE ALLOWANCE	61019						
EDUCATION ALLOWANCE	61021						
TERRITORY ALLOWANCE	61022						
COMPENSATION	61023						
DRIVERS COMPENSATION	61024						
ACTING ALLOWANCE	61031						
CASHIERS ALLOWANCE	61032						
NOTE COUNTING ALLOWANCE	61033						
IN LIEU OF NOTICE	61042						
ACCIDENT FREE BONUS	61047						
NATIONAL PROVIDENT FUND	61051						
PENSION SCHEME	61052						
OTHER BANK CONTRIBUTION	61059						
SUB--TOTAL							
STAFF WELFARE							
RESPONSIBILITY ALLOWANCE	61012						
OTHER NON-TAXABLE CONTRACTUAL ALLOW.	61029						
CAR ALLOWANCE	61034						
STAFF ENTERTAINMENT	61035						
TRANSPORT ALLOWANCE	61036						
MGT.CAR LOAN ALLOWANCE	61037						
OTHER NON TAXABLE GEN. ALLOW. W/PAYROL	61039						
IN LIEU OF LEAVE	61041						
EX-GRATIA	61043						
LEAVE TRAVELLING ALLOWANCE	61044						
DISPLACEMENT ALLOWANCE	61045						
EXPATRIATE PENSION SCHEME	61046						
KILOMETRE ALLOWANCE	61048						
OTHER NON TAXABLE GEN.ALLOWANCE	61049						
WITHOLDING TAX RENT SUBSIDY	61101						
LONG SERVICE AWARD	61102						
RETIREMENT GRATUITIES	61103						
MEDICAL EXPENSES	61104						
STAFF EDUCATION ASSISTANCE	61105						
ASSISTING MORTGAGE	61106						

GEN. MGT. RENT SUBSIDY	61107
LOCAL TRAINING	61108
OVERSEASES TRAINING	61109
GUEST HOUSE SUPPLIES	61110
CHILD XMAS PARTY	61111
W.T. F. LEVY	61112
STAFF ACCIDENT INSURANCE	61113
STAFF LIFE INSURANCE	61114
LUNCHEON VOUCHERS	61115
MEAL ALLOWANCE	61116
OTHER WELFARE	61199
SAP RELIEF	61120
FURNITURE ALLOWANCE	61121
SUB--TOTAL	
TOTAL 2.2a & 2.2b	
OPERATING EXPENSES	
COMMUNICA.POSTAGE & TELEGRAM	61201
TELEX	61202
TELEPHONE BANKING PREM.	61203
TELEPHONE RESIDENTIAL PREM.	61204
RADIO & RADIO TELEPHONE	61205
RADIO LICENCE	61206
OTHER COMM. COST	61209
SUB-TOTAL	
BANK OFFICE\RESIDENTIAL AND OPERATING EXPENSES	
OTHER SERVICES	61139
STATIONERY	61301
PRINTING	61302
UNIFORMS	61303
NEWS & MAGAZINE	61306
OTHER OPERATING EXPENSES	61399
WATER & ELECT.GAS (BANKING)	61405
CLEANING BANK PREMISES	61406
CLEARING (RESIDENTIAL)	61415
SECURITY GUARDS BANK PREMISES	61416
SECURITY GUARDS RESIDENTIAL PREMISES	61417
HIRE OTHER RES.PREMISES	61418
SUB -TOTAL	

GENERAL MAINTAINANCE							
BANK PREM. REPAIR	61401						
E & M REPAIRS	61402						
FURNITURE, FIXTURES REPAIRS	61403						
PUR. MINOR ASSET	61404						
HIRE OTHER EQUIP.	61406						
OTHER REPAIRS & MAINT. BANK PREMISES	61409						
REPAIRS & MAINT. EQUIP & MACHINERY	61412						
REPAIRS & MAINT. FURNITURE & FITTING	61413						
PUR. OF MINOR ASSETS (RESIDENTIAL)	61414						
OTHERS REPAIRS & MAINT. (RES. PREMISES)	61419						
SUB - TOTAL							
RATES							
RATES BANK PREMISES	61423						
RATES RESIDENTIAL PREMISES	61424						
SUB - TOTAL							
TRAVELLING ACCOM. & VEHICLE							
LOCAL TRAV. TICKET	61211						
OVERSEAS TRAV. TICKET	61212						
CHARTER FLIGHTS	61213						
LOCAL ACCOM. LODG	61214						
OVERSEAS ACCOM	61215						
OTHER TRAVEL EXP	61218						
OTHER ACCOM. & LODGING EXP	61219						
VEHICLE LICENCES	61221						
VEHICLE INSURANCE	61222						
PETROL OIL VEHICLE	61223						
PARKING FEES	61224						
REPAIRS VEHICLE	61225						
OTHER VEHICLE EXPENSES	61229						
SUB - TOTAL							
ENTERTAINMENT CUSTOMERS							
CLUB SUBSCRIPTIONS	61119						
ENTERTAINMENT ALLOWANCE	61189						
GEN. MGT. ENTERT	61541						
DIRECTORS ENTERT	61542						
REFUND ENTERT EXP	61543						
DIN. ROOM SUPPLY	61544						
OTHER ENTERT EXP	61549						
SUB TOTAL							

PROFESSIONAL FEES							
AUDIT EXPENSES	61304						
LEGAL FEES	61501						
AUDIT FEES	61502						
TECH & MGT. SERVICES FEES	61503						
VALUATION FEES	61504						
APPOINTMENT OF RECEIVERSHIP FEES	61505						
UBA TRUSTEES SERVICES FEES	61507						
PROFESSIONAL FEES/OTHER FEES	61509						
B. N. P. INSPECTORS EXP	61733						
SUB - TOTAL							
RENT PAID							
RENTS BANK PREMISES	61421						
RENTS RESIDENTIAL PREMISES	61422						
OTHER RENTS & RATES	61429						
SUB - TOTAL							
INSURANCE							
OPERATIONS INSURANCE	61521						
SUB - TOTAL							
ADVERTISING							
ADVERTISING	61531						
BUSINESS GIFTS	61532						
SUB - TOTAL							
COMPUTER OPERATION							
COMPUTER REPAIRS	61601						
HIRE D. P. EQUIPT.	61602						
COMPUTER TECH/MGT. SERVICES	61603						
COMPUTER CONSUMABLES	61604						
COMPUTER STATIONERY	61605						
SUB - TOTAL							

APPENDIX 5

BUDGET PROPOSAL FOR CAPITAL EXPENDITURE FOR THE YEAR 19.....

LIGHT EQUIPMENT

BRANCH.....

NOS	DESCRIPTION OF ITEM	MACHINE SERIAL NO	QTY. HELD	DATE OF PURCHASE	CONDITION OF EQUIPMENT	NO. FOR REPLACE-MENT	NO. FOR ADDI-TIONS	TOTAL	DIVISION/AREA MGT. COMMENT	FOR HEAD OFFICE USE ONLY: CURRENT MARKET PRICE ₦	FOR HEAD OFFICE USE ONLY: NORMAL LIFE SPAN	FOR HEAD OFFICE USE ONLY: RECOMMENDED
1.	TELEFAX											
2.	PHOTO-COPIER (A/SIZE)											
3.	9- DRAWER FILLING CABINETS											
4.	7 - DRAWER FILING CABINETS											
5.	4 - DRAWER FILING CABINETS											
6.	SPECIMEN SIGN. CABINETS											
7.	LATERAL FILING CABINETS											
8.	FRANKING MACHINE (FOR MAIL)											
9.	SHREDDING MACHINE											
10.	LAMINATING MACHINE											
11.	CALCULATOR/ADDING MACH.											
12.	ELECTRIC TYPEWRITERS (IBM MODEL 8784/3000 SERIES)											
13.	MANUAL TYPEWRITERS											
14.	REFRIDGERATOR (BIG)											
15.	REFRIDGERATOR (SMALL)											
16.	STANDING FAN											
17.	LEDGER TROLLEYS											
18.	POSTING TRAY											
19.	MOBILE CASHIER TILL											
20.	CASHIER BOX W/METAL FLAP											
21.	CASH BOX											
22.	WALL CLOCK											

- 154 -

BUDGET PROPOSAL FOR CAPITAL EXPENDITURE FOR THE YEAR 19.....

HEAVY/SECURITY EQUIPMENT

BRANCH .....

NOS	DESCRIPTION OF ITEMS	MACHINE SERIAL NO	QTY. HELD	DATE OF PURCHASE	CONDITION OF EQUIPMENT	NO. FOR REPLACE-MENT	NO. FOR ADDITI-ONS	TOTAL	DIVISION/ AREA MGT. COMMENTS	FOR H/O USE ONLY: CURRENT MARKET PRICE ₦	FOR H/O USE ONLY: NORMAL LIFE SPAN	FOR H/O USE ONLY: RECOMMENDED
1	BULLION SAFES											
2	CASH SAFES											
3	PHOTO-COPIER (H/DUTY) (For Photo-Copying Pools only)											
4	4- DRAWER F/PROOF CABINET											
5	2 - DRAWER F/PROOF CABINET											
6	WALTHER EF 33 A/C MACHS											
7	REG/MICRO CHECK CAMERA											
8	CURRENCY NOTE DETECTORS											
9	NOTE - COUNTING MACHINES											
10	CHECKER PROTECTOGRAPH MACHINES											
11	CURRENCY BUNDLING MACHINE											
12	COMMUNICATION EQUIPMENT: Teleprinters											
	Radio Phone											
	PABX (10 Lines & Above)											
	PABX (5 Lines)											
	Cellular Phone											
	Telephone Hand-Sets											
13	HOLOGRAM APPLICATOR											
14	PRINTING MACHINE (Printshop Only)											
15	PROVISION FOR NEW BRANCHES											

FURNITURE

BRANCH.....

NOS	DESCRIPTION OF ITEMS	PRESENT STOCK			REQUIREMENTS				FOR HEAD OFFICE USE ONLY		
		QTY. HELD	DATE OF PURCHASE	CONDITION OF ITEM	NO. FOR REPLACEMENT	NO. FOR ADDITIONS	TOTAL	DIVISION/AREA MGT. COMMENT	CURRENT MARKET PRICE ₦	NORMAL LIFE SPAN	RECOMMENDED
1.	SENIOR EXECUTIVE DESK										
2.	EXECUTIVE DESK (WITH EXTN)										
3.	EXEC DESK (WITHOUT EXTN)										
4.	MANAGER'S DESK										
5.	OFFICERS/SUPERVISOR'S DESK										
6.	CLERICAL DESK										
7.	SECRETARY'S DESK (WITH EXTN)										
8.	TYPIST DESK										
9.	RECEPTION DESK										
10.	COMPUTER W/STATION/COMP. TABLE										
11.	CONFERENCE TABLE										
12.	SETTEE										
13.	CENTRE TABLE										
14.	SIDE STOOL										
15.	SIDE - BOARD										
16	BOOK - SHELVES										
17.	SEN. EXECUTIVE CHAIR (H/B)										
18.	EXECUTIVE CHAIR (LOW BACK)										
19.	MANAGERS/OFFICERS' CHAIR										
20.	CLERICAL CHAIR										
21.	SEC/TYPIST/MACHINEST CHAIR										
22.	CONFERENCE CHAIRS										
23.	VISITORS' CHAIR (OFFCR TYPE)										
24.	VISITORS' CHAIR (CLERIAL ")										
25.	CUSTOMERS' BENCH										
26.	CASHIER'S CHAIR										
27.	CAFETERIA TABLE										
28.	CAFETERIA CHAIR										
29.	DIARY CARD BOXES										
30.	COMPUTER OPERATOR'S CHAIR										
31.	LIFT OPERATOR'S CHAIR										
32.	SECRETARY'S CUPBOARD										
33.	STATIONERY CUPBOARD										
34.	[redacted]										
35.	RECEPTION SETTEE										
36.	PROVISION FOR NEW BRANCHES										

STATE WHETHER BAD, FAIR OR GOOD

ESTIMATED EXPENDITURE OF RECOMMENDED ITEMS ₦.....