



# Issues of Budgeting and Control

## Chapter 3

By Ahmad Reda



# Learning Objectives

- Key Purposes of Budgets
- Various ways of classifying expenditures
- Key Phases of the Budget cycle
- How an encumbrance system prevents overspending
- How budgets enhance control



# Key Purposes of Budgets

- Planning
- Controlling and Administering
- Reporting and evaluating
- **Budgets in Government are MUCH MORE IMPORTANT than they are in Business**
- The General Fund and special revenue funds usually require a legally adopted budget before the government can collect revenues from taxes and other sources and incur expenditures.
- Severe penalties may exist for failure to comply with the budget, so it is imperative that the accounting system facilitate accounting for the budget as well as all other operating transactions.



# Major types of Budgets

## 1) **Appropriation Budget** (موازنة الأعمادات او الجارية او التشغيلية)

- ✓ Monitors current or operating fund (i.e. general fund and other governmental funds)
- ✓ Typically covers one operating cycle , a fiscal year.
- ✓ Most governments prepare their operating budgets on a cash basis.
- ✓ By law must be balanced (estimated revenues = estimated expenditures)
- ✓ Financed mainly through taxes ,grants and other fees.
- ✓ The budgetary compliance relates to his type of budgets
- ✓ Is a fixed budget because it includes an estimate of one level of output  
تعتمد تقدير واحد لمستوى النفقات التي ستقدم كونها غير مقيدة بعوامل السوق



## 2) Capital Budget

- ✓ Monitors construction and acquisition of general long-lived assets. الأصول الرأسمالية التي ستستخدم في الأغراض العامة الغير ربحية.
- ✓ Financed mainly through long term borrowing.
- ✓ Typically covers multiple years
- ✓ Appropriation budget includes also current year capital outlays.

## 3) Flexible Budget

- ✓ Contains alternative budget estimates based on varying levels of output
- ✓ Helps distinguish fixed and variable costs
- ✓ Most useful to business-type activities where level of activity depends on customer demand
- ✓ Financed mainly through user charges



# Classification of Expenditures

GASB suggestions classifying expenditures by any of the following:

- **Fund** حسب نوع المال
  - ✓ Ex. general fund, special revenue fund, etc.
- **Function or Program** التقسيم الوظيفي
  - ✓ Def. Group of activities carried out with the same objective
  - ✓ Ex. general government, public safety, sanitation, etc.
- **Organization Unit** حسب الوحدات الإدارية
  - ✓ Ex. police department, fire department, etc.
- **Activity** حسب نوع النشاط
  - ✓ Def. Line of work contributing to a function or program
  - ✓ Ex. highway patrol, burglary investigations, etc.

## ■ Character

حسب طبيعة او صفة النفقة فعلى سبيل المثال نفقات جاريه (تشغيليه) تتعلق بالسنة الحاليه , نفقات راسماليه تفيد السنة الحاليه والسنوات القادمه , ونفقات ماليه تتعلق بالسنوات السابقه والحاليه والقادمه)

- ✓ Def. The fiscal period presumed to benefit
- ✓ Ex. Current, Capital, Debt Service

## ■ Object حسب بند او نوع النفقة

- ✓ Def. The types of items purchased or services obtained

Ex. Salaries, fringe benefits, travel, etc.



# Classification of Revenues and Estimated Revenues:

*GASB Suggestion:*

- 1<sup>st</sup> classify by **fund**
- 2<sup>nd</sup> classify by **source**

Sources include:

- Taxes :Ad-valorem(ضريبة الملكية) and self-assessing والقيمة (ضريبة الدخل) (المضافه)
- Special Assessments
- Licenses and Permits
- Intergovernmental Revenues
- Charges for Services
- Fines and Forfeits
- Miscellaneous Revenues





ملاحظه : فيما يتعلق بتصنيف النفقات والأيرادات في الموازنه تم استخدام التعبير التالي:

GASB suggestions ,recommends or advices not requires, why?

Reason : GASB has no authority over the budgetary standards and principles ,he has an authority over governments for financial reporting purposes.



# Object Classification Budget

- Traditional and most common used
- Facilitates control
- Prepared on a cash basis
- Called so because expenditures are classified by object

## Drawbacks:

- Discourages planning
- Promotes bottom-up budgeting than top-down budgeting
- Overwhelms top-level decision-makers with details
- Limits post-budget evaluation(it does not evaluate efficiency and effectiveness)



# Performance Budgets

- Supplement to object classification budgets تستخدم كداعمه وليس بديله لموازنة البنود
- Focus on measurable units of efforts
- Prepared on a full accrual basis
- May cover more than one year
- Institutionalize effective decision process

The most common type of performance budget is program budget.



# On What Basis of Accounting are Budgets Prepared?

- Neither GASB nor FASB have control over budgeting principles
  - Budgeting principles are set by either the government/organization or the government/organization that supervises them
- GASB recommends using **modified accrual basis of accounting**.
- However, most governments use the **cash basis** for their budgets.



# Cash Basis Budgeting

- Budgeting principles are established by individual governments or organizations and not by GASB nor FASB.
- Although GASB recommends the use of modified accrual basis in preparing the annual budgets, many governments adopt cash basis or modified cash basis.



# Cash Basis Budgeting

Governments using cash basis:

- Assign revenues and expenditures to the period during which the cash is expected to be received or disbursed.
- Treat encumbrances equivalent to actual purchases.
- Recognize taxes and other revenues in the year in which they are due and **not** in the year in which they are expected to be collected.



# Cash Basis

## Disadvantages:

It may give an appearance of a budget that has achieved inter-period equity when it really has not. Makes it easier to transfer resources from a fund that has a budget surplus to one that needs extra resources.

**Complicates financial accounting and reporting.**



# Key Phases of Budget Cycle

- 1) Preparation: is the responsibility of the executive branch(authority) مسؤولية السلطة التنفيذية(مجلس الوزراء)وتبدأ مرحلة أعداد الموازنه العامه للسنة المقبله ابتداءً من بداية النصف الثاني للسنة الحاليه
- 2) Legislative adoption and executive approval ( مرحلة الاعتماد ) is the responsibility of the legislative authority.  
Upon the adoption, the estimated expenditures become as an appropriation اعتمادات.  
An **appropriation** is a legal authorization granted by the legislative body to incur liabilities for purposes specified in the appropriation act or ordinance.
- 3) Execution: is the responsibility of the executive branch(authority)(cabinet)  
During the execution phase ,the available appropriation for the year is allocated to departments ,units and agencies on a monthly or quarterly basis ,this process is called allotments or apportionments to prevent the early spending of available appropriation وذلك بناءً على اوامر ماليه صادره عن وزارة الماليه في بداية كل شهر او ربع
- 4) Reporting and auditing





# How do budgeting in not for profit organizations compare with that in governments:

1. In governments Severe penalties may exist for failure to comply with the budget, while in NFP organizations no severe penalties for over spending or violating the budget. that is budgetary compliance is required by GASB but is not required by FASB.
2. GOVERNMENTS estimate their expenditures first then seek how to pay for them while NFP organizations do the opposite, why????????????????????????????????