# Budgetary Control

What is Budgetary Control?

Definition: Budgetary control refers to how well managers utilize budgets to monitor and control costs and operations in a given accounting period. In other words, budgetary control is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as it is needed.

What Does Budgetary Control Mean?

You can think of a budget like a report card in school. It shows how well you performed in that subject during the school year. The budget process does the same thing. Management can set goals and evaluate the progress.

There are typically four steps in any budgetary control process that managers follow.

## EXAMPLE

First, a budget needs to be created. To put it simply, a company performance budget is really just a set of financial goals that management wants to achieve. These could be sales or spending goals.

Second, after the budget is created, management needs to compare, analyze, and interpret the actual performance results with the budgeted goals. Management typically uses a [budget report](https://www.myaccountingcourse.com/accounting-dictionary/budget-report) for this comparison.

Third, after the comparison has been made, managers need to improve the under performing operations and continue to strengthen the favorable ones. The budget report easily allow managers to focus on unfavorable operations because all areas that meet the budget are marked with an F for [favorable variance](https://www.myaccountingcourse.com/accounting-dictionary/favorable-variance) while the poorly performing areas are marked with a U for [unfavorable variance](https://www.myaccountingcourse.com/accounting-dictionary/unfavorable-variance).

The fourth and final step usually occurs at the end of an accounting period. After management has a chance to look over the entire last period, they can start making plans for the next year. For example, they will most likely review the original budget that was created and why certain goals were set. Then they will compare the actual with the budgeted performance over the entire period. Lastly, management will focus on how they tried to correct the problem operations and develop a plan to fix them in the next period.

Source: https://www.myaccountingcourse.com/