

# Performance budgeting

SUBJECT:ADVANCED MANAGEMENT ACCOUNTING

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# Meaning

- A **performance budget** is one that reflects both the input of resources and the output of services for each unit of an organization.
- This type of **budget** is commonly used by government bodies and agencies to show the link between taxpayer funds and the outcome of services provided by federal, state, or local governments.
- Performance budgeting is the process of establishing objectives and then achieving those objectives within the budgeted expenditure.

# Definition

- According to J. Burkhead, A **performance budget** is one which presents the purposes and objectives for which funds are required, the costs of the programmes proposed for achieving those objectives and quantitative data measuring the accomplishments and work performed under each programme.

# features

- It's based on functions, programs and activities
- The total operations are subdivided into functions, tasks or activities
- For each task or activity objective is determined
- For measuring the work or task suitable methods or norms are established
- It introduces a system approach to budgeting
- It is widely used in public sector enterprises and in government departments

# steps

- Establishing responsibility centers
- Classifying the total work in terms of various functions ,programs and activities
- Fixing targets for each responsibility centers
- Measuring actual performance
- Evaluating the performance
- Reporting of performance



Zero based budgeting

# Meaning

- The concept of ZBB is given by PETER Pyher in 1969
- In ZBB next year budget is prepared by not considering the figures of last year and by assuming zero base.
- It means that each years budget is prepared by beginning
- ZBB activities are selected in the order priority of their importance.



# Definition

- An operating ,planning and budgeting process by which requires each manager to justify his entire budget requests in detail from scratch and shifts the burden of proof to each manager to justify why he should spend any money at all.

# process

- Identify the cost centres
- Making decision packages
- Ranking decision package
- Allocating available resources based on ranking
- Controlling and monitoring whether allocation of resources is done accurately or not.

- More accurate budgeting clear picture of cost against desires performance
- Efficient allocation of resources
- Reduction in redundant activities
- Overcome the weakness of incremental budgeting or budget inflation

# Disadvantages

- Very time intensive exercise
- Require the involvement of large number of employees
- Difficult task and require training of the managers