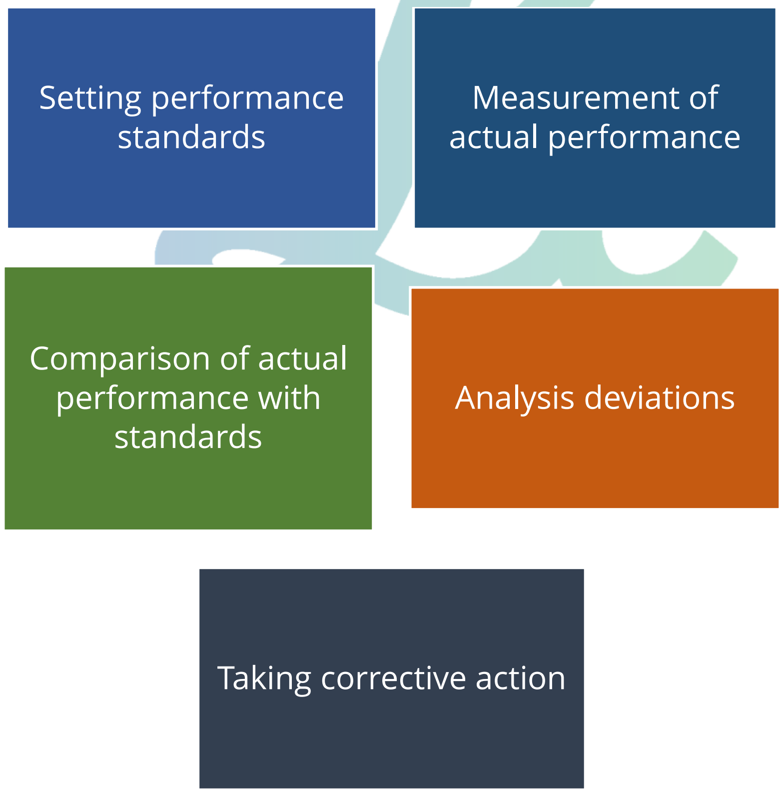
Controlling

What Is Controlling?

- Managerial function to ensure that activities in the organization are performed according to the plan.
- Control is the process of bringing about conformity of performance with planned action-Dale Henning

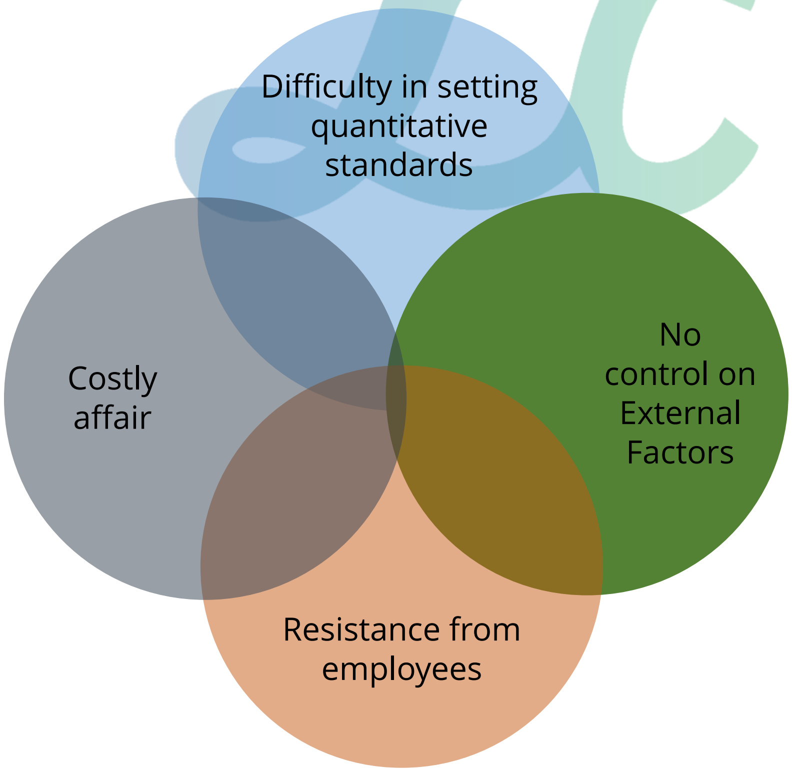
Features



Importance of Controlling

- → Accomplishing Organizational Goals
- → Judging Accuracy of Standards
- → Making efficient use of resources
- → Improving Employee Motivation
- → Ensuring Order and Discipline
- → Facilitating Co-ordination in action

Limitations



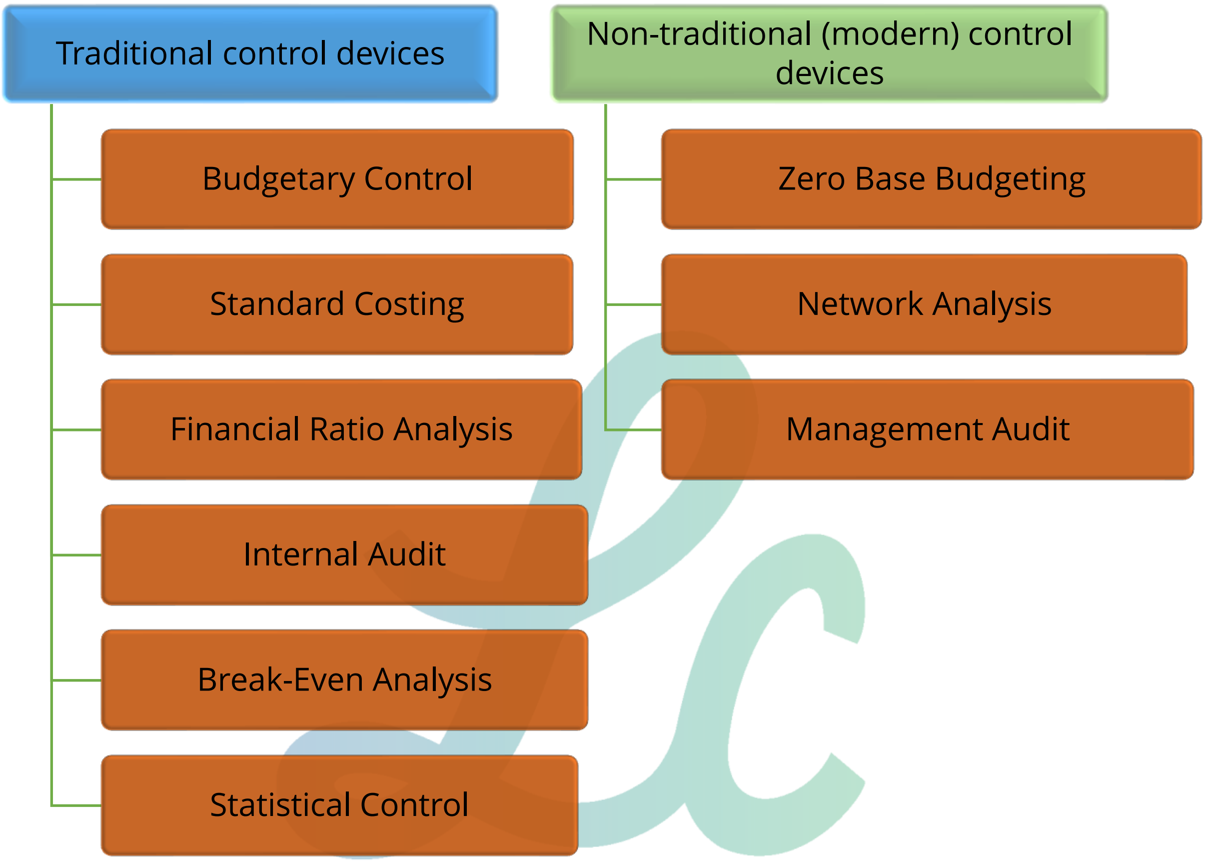
Control Process

Establishment of Goals and Standards → Measurement of Actual Performance against Standards and their Comparison → Corrective Action → Follow-Through

Essentials of Good Control System

- Feedback
- Control should be Objective
- Prompt Reporting of Deviations
- Forward Looking Control
- Flexible Control
- Organizational Suitability
- Control should be Economical
- Strategic Point Control
- Control should be Simple to Understand
- Control should Suggest Corrective Action
- Control should be Worker-Focused

Techniques of Control



Budgetary Control

Budget as a plan represents a statement of anticipated inflows and expected outflows expressed numerically.

Elements of Budgetary Control

- Noting the steps necessary to achieve the objectives
- Translating the course of action into quantitative and monetary terms
- Constant comparison of the actual with the budget

Purpose of Budgeting

- To Develop an Organized Procedure for Planning
- Means of Coordination
- Basis for Control
- To Control Cost
- To Increase Efficiency in the Field of Production
- To Determine Capital Requirements
- To Encourage Research and Development
- To Increase Utility of Cost Records

Types of Budget

- Sales budgets including selling and distribution costs budgets
- Production and manufacturing budgets
- Purchase Budget
- Capital Expenditure Budget
- Administration Expenses Budget
- Research and Development Budget
- Cash Budget

Benefits of Budgeting

- Helps to express many diverse actions and things
- Maximum efficiency is achieved by avoiding wastage and losses
- Expenditure can be scrutinized before it is incurred
- Budgets serve as a target
- There will be no over-lapping and that nothing will be left undone
- Comparison of actual and budgeted performance will show up
- Spots where management attention is needed the most
- Budgeting is also very useful in “profit planning”

Standard Costing

- Expenses/costs associated with every activity are recorded and classified and then compared with the standard or budgeted costs.
- The concerned manager takes corrective action if any deviation is found.
- This technique helps in finding out which activity is profitable, and which is not.

Financial Ratio Analysis

- ❖ When a comparative study of these financial statements is made, trends of changes in profits, assets, liabilities, turnover etc. can be assessed. Further ratio analysis can be done to compute and analyze financial statements.
- ❖ Ratio Analysis is the relation between various elements of financial statements expressed in mathematical terms. It helps to understand profitability, liquidity and solvency of a firm.

Internal Audit

Internal auditing signifies regular and independent appraisal of the accounting and financial and other operations of a business by a staff of internal auditors.

Break- Even Analysis

- Break-Even Analysis is a point of ‘no profit – no loss’.
- For instance, when a firm is able to sell 24,000 bags, it would break-even. It indicates that a sale below this level will cause a loss and any sale above this level will earn profits.
- It can be used as a control device as it provides a basis for collective actions to be taken to improve future performance.

Statistical Control

- ❖ In order to find out the causes for deviations comparison of various ratios, averages, percentages of statistical data are undertaken.
- ❖ Statistical reports compiled after the analysis are presented in the form of charts or graphs which helps in visualizing the trends and weaknesses in the respective areas of operation, and necessary remedial steps are suggested.