
To study the Budget Making Process in a Professional College

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Abstract- In a scenario of uncertain admission for professional college year after year. Ever increasing competition among professional college for providing best academics & facilities to students. But providing the best academics and facilities has cost. The difficulty faces by professional college is that they have to provide these facilities at attractive low fees to students, so that their admissions do not suffer. Therefore the college has to balance their cost and revenue to avoid the stigma of making a loss. This paper tries to identify the Budgeting making process in a professional college.

(Keywords: Professional college, Budgeting making process, cost and revenue parameters, college budgeting parameters)

I. INTRODUCTION

A budget is an estimate of expected income and expense for a given period in time and is a snapshot of the plan of operations based on that estimate. A budget allows for a “what if” analysis of future plans and enables monitoring of plans in progress. The real priorities of an institution are clearly visible through its budget, and past priorities are made evident by looking at former budgets. A budget permits upper-level administration to view a picture of the effect of decisions made and provides information that can lead to the modification of future plans.

College generally operates using two types of budgets: operating and capital. An operating budget is a plan of revenue to be generated and expenditures (or transfers) from that revenue over a finite period of time (such as a Financial year). A capital budget is a plan of funding and expenditures for future buildings, major renovations, and remodeling. A capital budget reflects the priorities in the institution’s capital plan and projects the institution’s financial ability to carry out that plan. It is also important to include selected historical information in any budget presentation. A budget is a snapshot of anticipated future activity and is most informative when it can be compared and contrasted with past actual activity (and maybe a past budget).

When preparing a college budget, the budget in-charge must walk a fine line between providing enough detail to permit accurate projecting and sufficiently summarizing the data to prevent both the audience and budget preparer from being overwhelmed. Careful thought must be given as to when it is appropriate to provide detailed information and when it is appropriate to provide summarized information. As a general rule, summarized data are easier to work with and should be used for

projections when possible. However, the budget director must ensure that he or she has sufficient detail and categorization to make it possible to provide additional information if requested. An example of a category that may lend itself to summarization is salaries. Many institutions generally provide a percentage increment for salary increases each fiscal year (not including new positions to be budgeted or positions to be cut). This salary percentage increment can probably be applied to all currently budgeted positions in summary to provide an accurate projection of future salary costs. However, the in charge should be prepared to provide more detailed estimates, perhaps by department, if necessary. When a department or course is building its budget, some of the same principles apply as when building a university-wide budget. Knowing the audience and its appetite for detail is important. Again, the farther down the chain from the university-wide budget one goes, the more detailed the budget/projection. A department or course head must be aware of economic constraints on his/ her income and of College -wide parameters for future budgeting, such as salary and benefits increases. Generally, such parameters will be used throughout the university at all levels of budgeting. Such parameters also need to be considered when building a budget for a proposal for a contract or grant.

II. GATHERING HISTORICAL INFORMATION

The budget in-charge will begin gathering information for future-year budget projections well in advance of the required completion date. Historical information must be gathered and assessed for its usefulness in preparing future projections. Historical trends in actual activity related to revenue streams, such as athletics revenue or conferences activity are important since they influence

future budgets. A budget should not be based solely on parameters applied to the current-year budget without considering the amount of actual revenue projected. It is tempting to take the easy route and create a future-year budget that equals the actual amount of revenue expected for the current year. However, it is quite possible that the current actual revenue expected is an aberration from a normal pattern of activity and will not recur. In such a case, the future-year budget, while in line with current year actual expectations, would not be correct. The normal historical pattern of revenue generation over several years must be reviewed and considered when creating a future-year budget.

College Budgeting Parameters

Once historical information is gathered, analyzed, and assessed, desired parameters (rates of change) must be determined for both revenue and expense. Following is a brief listing of some of the categories to be considered when setting parameters and some of the considerations for each category.

Revenue:

1. **Tuition fees:** Prime drivers for this category include enrollment and tuition rates. In the case of a college-wide budget, does upper-level administration wish to increase enrollment for each of the next five years? Does it wish to increase tuition by a certain percentage? If so, then such parameters must be applied after considering the historical information already gathered. For example, an enrollment increase for each of the next five years may be implemented after noting a decline in enrollment, which may or may not have been budgeted. A prudent budget would require building the increased enrollment on the actual past enrollment, not on the budgeted past enrollment. Also, are programs to be added or eliminated that would increase or decrease enrollment and/or tuition?
2. **Student fees:** Student fees include not only miscellaneous small fees, but also major fees such as those for housing and dining, student health, and recreation. Are student fees to be increased? If so, by how much? Will new student fees be added? What will be the change in the estimated number of students?
3. **Governments Grants:** How much can the institution anticipate in government funding? Do we have to "return" tuition income (or a percentage thereof) to the state in return for its

funding? Understandably, it is extremely difficult to assess government funding in advance of legislative approval, so one might consider budgeting conservatively so that future reductions will not be necessary. However, it is also important not to budget unrealistically low, as this might result in unnecessary reductions.

4. **Investment income.** What interest rates should be assumed for the coming years? What is the economic climate expected to be in the next year or two? Does the institution have an endowment policy in place that delineates how much of the earned endowment income will be returned to support operating expenses? If so, what is the effect on the operating budget for the current year?
5. **Contracts and grants income.** How much revenue can the institution expect from contracts and grants income? Is a growth in proposal submissions expected? If so, what is the average success rate for submitted proposals?
6. **Facilities and Administrative (F & A) return from grants** (also referred to as indirect cost or overhead). When grant funds are expended, it is quite common, particularly when the granting agencies are governmental, for a percentage of the expenditure to be sent to the institution to cover broad grant-related expenses such as utilities expenses, administrative oversight expenses, etc. Such income is returned to the institution in the form of unrestricted income. What potential grants are expected to be awarded? How will already-awarded grants be expended? How much will the institution choose to "waive" or not collect in F & A?
7. **Gift income.** How much is the institution expecting in gift income during the next year? Considerations include determining how much of the gift income will be restricted vs. unrestricted. Is a major campaign underway to generate gifts?
8. **Sales and services income.** This is a category that can be difficult to project if the institution has an entrepreneurial atmosphere. How much is expected from new initiatives? What changes are expected in the income of existing initiatives?
9. **Other revenue.** Miscellaneous other income falls into this category. As with other revenues, one must assess historical patterns, future potential, and anticipated increases.

Expenses:

1. **Salaries:** How will salaries for existing positions change in the next year? Will there be a general salary increase? Is the institution adding or removing positions? Do we need additional budgets for supplemental teaching or graduate student stipends?
2. **Benefits:** Is the institution adding or removing positions that will affect benefits expenses? What rates have been negotiated with major benefit carriers, such as health care or dental? Will there be a change in the benefits offered?
3. **Library:** What is the anticipated percentage cost increase to retain existing journals? Does the institution expect to significantly change the number of volumes in the library's collection?
4. **Infrastructure:** What is anticipated in terms of increases to utility rates? Is the institution adding additional space (perhaps a new building) that will affect utility budgets? Are we changing the method of utility delivery in a way that will affect the cost of utilities?
5. **Support costs.** All departments need funds to support travel, office expenses, phones, etc. What is the institution's policy to support these expenses? Will the units be given a set percentage change or will each unit be required to justify an increase?
6. **Capital Budgeting**

Capital needs result from one of two situations—the need to maintain already existing facilities and the need to construct new facilities. Budgeting concepts can differ between the two.

Ongoing maintenance: The facilities on a university campus are a source of investment, and their value should be maintained through regular maintenance. When buildings are new, ongoing system maintenance needs are light. As buildings age, it is important to replace systems on a reasonable schedule, not only to prevent unanticipated outages, but also to be able to plan for the expenses in a structured way. Clearly, ongoing maintenance is a large budget item for many institutions. It can be accommodated in one of two ways—through the use of recurring budgeted funding or the use of non-recurring, one-time funding. It is wise for a college to include some recurring funding for facilities renewal, although it is unlikely to be possible to budget all money needed on a recurring basis.

Funding of new construction: If a college is to grow and change, then new facilities will likely

need to be constructed. Funding for such facilities can come from several sources. Clearly, many college rely on government grants for construction. Institutions can also acquire grant funding from government agencies, particularly if the building is to be used exclusively for research.. The bank loan, while time consuming, can be worthwhile, particularly if the facility will include some revenue-generating activity that can be used to repay the bank loan. Indeed, debt management and policy are important activities for much college management. Clearly, when considering funding for new construction, one needs to plan for the recurring costs associated with any new building.

Departmental or Course Budget Parameters

It is important for in-charge with compiling a budget for a department or new program/ course to consider parameters of their own. Clearly, the parameters for college-wide budget discussed above may have an effect and should be considered. Additionally, more detailed considerations are desirable. Does the travel segment of the budget need to be increased? If so, then what is the possible source of funding for this increase? Will the course retain revenue generated by a new program or will that income roll to the college budget with amount budgeted for expenses? What central costs, such as benefits expenses, are required in new budgets? Other issues related to departmental/ course budgets are discussed below.

When budgeting, in-charge must consider not only matching sources with uses (for example, not commingling unrestricted and restricted funds), but also whether a particular budget is of a recurring or non-recurring nature. A recurring budget (sometimes referred to as permanent or ongoing) is one that is intended to endure beyond the current fiscal year. For example, the Chemistry department is requesting a new assistant professor. Because the department anticipates that this position will be needed for many years to come, the request should be for “recurring” funding.

A non-recurring budget (sometimes referred to as temporary or one-time) is one that is not intended to endure beyond the current year. For example, the Math department has a increase in course enrollment in the current year, but does not expect this increase to occur next year. The department requests a lecturer for just the current year and does not request this position for longer than the current year. The department is requesting a “non-recurring” position.

International Journal of Science, Engineering and Management (IJSEM)

Vol 2, Issue 8, August 2017

It is important to determine what type of budget (recurring or non-recurring) is required when requesting funding, since this may affect the success of the request. Generally speaking, it is easier to obtain non-recurring funding than recurring funding.

It is useful for departmental or college administrators to be aware of the information needed to build a college-wide budget. Clearly, a college-wide budget is composed of all of the detailed budgets below it. Being knowledgeable about the methods of gathering and presenting such data can benefit a departmental administrator, and knowing some of the pressures on budgets at a central level can help a unit administrator when compiling new budgets for consideration.

III. BUDGET PRESENTATION

All college maintains a chart of accounts that facilitates financial reporting. Some people may require financial reporting by source and function (tuition and fees, gifts, instructional expenses, research expenses, etc.), while others may require reporting by department or college, and still others may require reporting by natural classification (faculty salaries, professional/staff salaries, benefits, travel, etc.). The grand total of revenue and expense for each of these audiences will be consistent, but the details of reports given to them will be different. Once college management approves the budget, college sorts the same information and budget projections into the data that the board of trustees wishes to see. The expense budget now displays expenses by function—instruction, research, academic support, student services, etc.; within each of the functions, one will find expenses for faculty, staff, etc. The totals are consistent with the version presented to college management, but the data are organized differently. As you can see, consideration of reporting requirements is critical to the design of a college chart of accounts.

IV. CONCLUSION

Budgeting is a useful tool for managing an institution's resources in order to achieve its strategic plan and for monitoring expenses during a fiscal year. Additionally, preparing a budget is necessary from both a general institutional perspective as well as from a departmental one, although the level of detail presented is reduced the higher in the organizational hierarchy one goes. Assessing recurring vs. nonrecurring needs is important, as is defining the "segments" of a budget (auxiliary, basic operating, etc.). Capital budgeting is distinct from operational budgeting, but both are necessary. The reporting of information is paramount to a budget

director's job, as is the facilitation of that reporting through the chart of accounts organization.

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