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# UNIT 17 BUDGETING AND ACCOUNTING

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## 17.0 OBJECTIVES

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After reading this Unit, you will be able to:

- know the meaning of budgeting and financial planning;
- categorise the different budgetary methods, budgetary standards, norms and principles;
- acquaint yourself with the process of budget preparation, budgetary control, accounting and auditing; and
- perceive the value of library budget which serves as an instrument of control.

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## 17.1 INTRODUCTION

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In the preceding Unit you have learnt about the financial management of libraries in general and sources of funds, financial estimation and planning for library expenditure. In this Unit you will learn what a budget is, why it is required in libraries and information centres, how it is operated and what its advantages and disadvantages are. This Unit deals with the important phase of financial management, namely, budgeting, financial control and accounting. The library being an expenditure-oriented institution, the central aspect of financial management is the budget which is a statement of income and expenditure, providing guidance in spending the appropriated funds through a period of time. It is also an instrument of control, communication, co-ordination, evaluation and motivation. In this unit, we shall study the basic features of a library budget.

The preparation of the library budget is a major responsibility of the librarian and his staff. In fact, the budget, is a reflection of the current and future activities, programmes and plans of the library. It has to be prepared with the cooperation of all senior members of the staff and within the framework of rules, procedures and guiding principles. It is necessary to justify expenditure on every item, particularly when more funds are to be earmarked for any running activity or proposed new programme. Accounting as a means of recording library expenditure according to established rules and procedures and maintenance of necessary financial records in conformity with audit requirements are very important.

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## 17.2 LIBRARY BUDGET AND FINANCIAL PLANNING

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Budgeting is a planning process in which the expenditure and revenue of the organisation over a specific time period are accounted for. The budget is a plan document and a financial statement which provides details of the proposed revenues and their utilisation for expenditure for a specific period, usually a year. It is a means of check and control on what money should



have been received and how money is to be spent. Budgeting need not be just confined to money. It can be expressed both in financial and non-financial terms. But it is a practice (and it is the strength of the budget) that it is expressed with a common denominator called the rupee (in India). Hence, budgeting is the process of quantifying all the plans of an operation to determine whether they will achieve the desired results and to adjust accordingly where they will not achieve the desired results. The budget is a quantitative expression of a plan of action, a tool in the hands of the library or information centre manager, a management actions towards the destination, and a tracking device ay highlight variations from the plan and show the need for corrective actions to put the operation back on track (Newton, 1981, p1313). In other words, the budget aids orderly and progressive planning, coordination and implementation, serves as an instrument of financial a device for evaluating result.

It has already been stated that the budget is a systematically prepared statement revenue and expenditure of an institution for a period of time, usually a year. The objective of this process is to produce a financial plan. The budget serves the dual purpose of limiting expenditure to income and assuring wisely planned spending.

Financial planning and budgeting have certain obvious advantages. They make goals clearer, assist in fixing responsibility, reveal weaknesses in the structure of the organisation force quantification of targets and achievements, lead to the waist productive use of resources, pinpoint timely actions and indicate the need for corrections from deviations, if any. So much so budgeting in general can also cause some problems. (i) It may lay much emphasis on easily observable factors (e.g. circulation figures). (ii) the budget may tempt one to become routine without improving operations. (iii) Library services are not quantifiable in terms of the rupee. (iv) The budget requires continues adaptation to meet changed circumstances. (v) It does not work automatically. (vi) The budget and, budgetary control are required to be used intelligently.

The budget is a guide on how to incur expenditure for the different activities and operations of an institution throughout the year. The general principle is that the estimated expenditure should not exceed the revenue. In other words, income and expenditure should balance each other. The budget should not be confused with annual financial reports. The latter is an official document to know what was achieved and what was not achieved during a given year. It is in fact a factual record of the state of affairs of the finances of an institution during a particular year. The budget, on the other hand, is only an estimate for the forthcoming year. In short, a budget is a preparation for the future whereas the financial report is an analysis and evaluation of the past.

The budget is also a very important instrument of control, communication, co-ordination, evaluation and motivation. It controls as it canalises the expenditure according to set financial rules and procedures. Budget estimates communicate to the staff and others concerned the total financial outlay of the institution and the allocation of funds for each major item of expenditure and regulate spending; coordinate through sharing of common expenditure of different units not only to economise on expenditure but also to maximise fund utilisation; evaluate performance on the basis of the utilisation of funds within the prescribed period; motivate staff to perform well, for funds have been provided for the activities for which they were sought, envisaging future developments. All the above attributes of a budget would equally apply to the library budget.

### **17.2.1 Budgetary Methods**

Every library, no matter how small, has to operate with a budget. In most libraries, the librarian and his senior staff prepare the budget, according to budgetary norms issued by the authorities. The budget is scrutinised, vetted, if necessary, and approved by the Library Executive Committee before it is sent to the higher authorities for final approval and sanction. The general practice is to follow the methods and procedures of the parent organisation. If they are special service of a comparatively limited scope, some small special libraries may be exempted from the preparation of a detailed budget. There are some methods of budgeting for preparing library budgets which include traditional ones practised by many libraries and the more innovative ones that have, in recent years, found their way into libraries. These budgetary methods are discussed below.



### **i) Line Item or Incremental or Historical or Object-of-Expenditure Type Budgeting**

Probably the most common type of budget is the one that divides items of expenditure, line-by-line, into broad categories such as books and journals, salaries and allowances, equipment, supplies, capital expenditure, contingencies, etc. with further subdivisions for each of these broad categories. This is the usual traditional method which, by taking into account past expenditure on each item, prepares the current budget, hence called historical budgeting. The budget is prepared with a small increase of say 5 or 10 percent for each major item of expenditure of the previous year's allocation, assuming that all current programmes are as good and necessary.

The advantage of this method of budgeting is that it is relatively easy to prepare, present and understand. To some extent it ensures that the funds provided are spent for the purpose stated. It is extensively practised. But it has certain weaknesses. This method does not suggest any future projections. It does not necessarily involve any review as to what amount ought to be spent in terms of activities and services. Secondly, it moves in the same manner as in the past year, without any forward push. Thirdly, this tends to ossify and rigidify the budget. In other words, budget funds earmarked for a particular item cannot be spent for any other purpose i.e., the financial rules would not permit the shifting of expenditure from one head to another. For instance, funds allotted for equipment, if unspent, cannot be shifted to acquisition of a few important titles of current journals even if fully justified. It emphasizes tools rather than what these tools have to achieve. It also has a tendency to tempt to disguise needs and ask for more money than needed. Above all, it lacks a forward look and not provide accountability for performance.

### **ii) Formula Budgeting**

Based on financial norms and standards (to be discussed in the next section) this method tries to relate some inputs like users served, academic programmes supported and ratio of book stock to total funds of parent body. The formulae are used for financial estimation as well as budget justification. This appears to be a broad and quick method and hence saves a lot of time. But it does not account for finer variations in respect of each library and its customers and services.

### **iii) Programme Budgeting**

This method propounded originally in the Hoover Commission Report (1949) has three steps. They are: (i) statement of agency (i.e., library) objectives, (ii) full consideration of alternative ways and (iii) logical selection of the best based on effectiveness and efficiency. Extended from the line-item method, this method tries to answer the questions for "what purpose the money is being spent?" and "how have the resources to be deployed for each programme?" and more suitable for a contracting economy. Accordingly, the financial plan is presented as programmes and subprograms built upon work units or work loads. Work units are assumed to be measurable and the work unit costs are the building blocks of the programme budget.

The focus in this method of budgeting is on the library's activities and the funds are to be earmarked for programmes or services that the library plans to provide. For instance, if a library decides to provide a Current Awareness Service, the cost of that service (like staffing, materials, publication, overheads, etc.) is calculated and the expenditure estimated. The budget is thus prepared on the basis of the cost of programmes and whether a programme has to continue, get modified or deleted.

A library may also group its major programmes or functions, which may correspond to the organisational structure of the library like administrative services, technical services, reader services, etc. Each of these services may be organised through departments such as acquisition, classification and cataloguing, reference and bibliographical services, documentation and information services, together with summary descriptions of these functions or programmes and comparative figures of current and proposed expenditure. In this type of budget, provision is made for various activities of each departments to gauge their requirements and watch their expenditures.



#### iv) Performance Budgeting

This budgeting method is similar to programme budgeting but the emphasis shifts from programmes to performance. The expenditure is based on the performance of activities and the stress is laid upon operational efficiency. This method requires careful accumulation of quantitative data on all the activities over a period of time. Management techniques such as cost-benefit analysis are used to measure the performance and establish norms. For example, data on the number of books acquired, classified and catalogued, actual man-hours for doing the entire processing work, etc. are collected to determine the manpower and materials needed to perform the tasks.

It emphasises the performance and operational efficiency of the programmes. Like programme budgeting starting with a statement of agency objectives, full consideration to alternate ways of achieving the objectives and a logical selection of the best is made based on effectiveness, efficiency and cost-benefit analysis. The unit cost for specific operations multiplied by the volume of operations anticipated would give the budget.

The advantage of the method is the emphasis on the service mission of the library. However, it is difficult to quantity service quality and activities. In other words, this method measures only quantity not quality which is rather difficult to measure in terms of money. In fact, the budget allocation for a service institution like a library has little direct relationship to the degree of satisfaction users receive from library services. Measuring benefits of libraries in rupees, the complex interrelationship of costs of different operations and the non-linear variation of cost for every unit output (marginal/incremental cost) are some of the problems. It may look too humble and begging for a review of each operation by authority.

#### v) Planning Programming Budgeting System (PPBS)

This method of budgeting was first proposed by USDOD (1961). Two key elements of PPBS are budgeting and systems analysis. As an extension of programme budgeting, PPBS involves systems analysis, and/or other cost-effectiveness processes to provide a more systematic and comprehensive comparison of costs and benefits of alternative approaches to a policy goal or programme objective. This establishes a rational basis to enable the decision-maker to choose between alternative programmes.

This method combines the best of both programme budgeting and performance budgeting. The focus in this method is on planning. It begins with the establishment of goals and objectives and ends with the formulation of programmes or services. The controlling aspect of measurement, which is central to performance budgeting, is also an aspect of PPBS. This method combines the functions of planning activities, programmes and services, translating them into tangible projects and finally presents the requirements in budgetary terms.

Great disparities do exist in practice and lack of standards for measuring programme effectiveness/performance are the difficulties of implementing PPBS. It also suffers from other implementation problems and some critical gaps like (i) focusing on what will be done rather than how to do it, (ii) failing to provide an operating tool, (iii) lack of a mechanism to evaluate the impact of various funding levels, (iv) focuses on new programmes or major increases on ongoing programmes rather than forcing continuous evaluation of existing programmes, and (v) cost calculation is based on the decisions made in the planning and programming steps."

#### vi) Zero-Base Budgeting (ZBB)

This method, developed by Peter Phyrre during early the 1970s, requires a thorough knowledge of the organisation and a lot of time, effort and training. Having much in common with PPBS and opposite of historical budgeting, it emphasises current activities and the necessity to justify each part of the programme every year. It assumes a budget of 'zero' for each programme until one convinces the appropriating authority that the programme is worthwhile and deserving of support at a specified level. It does not allow for incremental growth in budget. ZBB is an operating, planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (hence : zero-base) and shifts the burden of proof to each manager to justify why he should spend at all. This approach requires that all activities be identified and developed as "decision packages" and that there should



be a systematic evaluation and ranking of these "decision packages" preferably using a computer. It does not take into account what happened in the past but places emphasis on current activities. Every programme and activity is spelled out in detail and the financial requirements are worked out without any reference to the past. In other words the request for financial support has to be established afresh every year. No activity, in fact, could continue simply because that activity was undertaken in the previous year. In other words, the entire budget is justified from scratch.

Steps involved in preparation of ZBB are:

- Activities/programmes are grouped to lowest level entity
- Objectives and activities of each programme examined and alternative methods evaluated
- Programmes are then grouped into a series of "decision packages" with their statement of purpose
- Ranking of the "decision packages"
- cut-off point corresponds to the total budget allocation.

ZBB improves the plans and budgets of libraries and helps to develop good management teams. It also helps to add follow on benefits over the years. Yet the serious problem of the enormous time and efforts required together with other administrative problems and problems of developing and ranking "decision packages" prevents its adoption in libraries.

Some observations: Some of these budgetary methods are of recent origin and present a more readily understandable view of the budgetary requirements of activities and services, a more objective justification for them and are better instruments for purposeful spending. In practice it is necessary to understand the "politics" of the budget process within the parent organisation and look for opportunity for personally participating in the final negotiations/ deliberations as well as using personal informal contacts effectively.

In India, almost all libraries follow the conventional historical method of budgeting. It is only in recent years that some attention is given to other, newer, methods. One aspect that needs careful examination is that most library functions and services are of a continuing nature and cannot be discontinued on any account without reference to the past. While it is necessary to evaluate performance and effect improvements to ensure quality of service, discontinuity of existing services would prove undesirable, particularly if conditions do not warrant. It is, however, possible to make a more objective assessment of these methods of budgeting only if Indian libraries start making their budgets by these newer methods and gain sufficient experience in their operations.

### Self Check Exercises

- 1) List the different methods of preparing library budgets.
- 2) Explain the features of Zero-Base Budgeting in five or six lines.

**Note:** i) Write your answers in the space below.

ii) Check your answers with the answers given at the end of this Unit.

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### 17.2.2 Budgetary Norms and Standards

For the purpose of financial planning and budgeting, standards and norms have been set/ proposed by professional experts, committees and bodies. They are quite useful in estimating the budget, seeking and justifying funds as well as allocating the budget among various items of expenditure.



Having got some idea of the methods of budgeting, let us now discuss the standards and norms that form the basis of estimating the requirement of library funds required and also the distribution of funds to major items of expenditure within the total library budget. We have already discussed the basis for estimating the financial requirements of libraries in Unit 16. Just to recapitulate, we have studied three methods of estimating funds, namely, i) per capita method, ii) proportional method and iii) method of details.

The second aspect of budgetary norms and standards that needs attention in this unit is the actual distribution of budgetary funds to different competing heads of expenditure. The major heads of expenditure in libraries are books and journals, and salaries and allowances, both of which are to be combined to generate services. Ranganathan has suggested that the proportion of the expenditure of a university library on these two major items be as follows:

Staff	:	50%
Books and other reading, materials	:	40%
Miscellaneous	:	10%

The University Grants Commission Library Committee has suggested that a university library with 5,000 students and 500 teachers and research fellows should have a budgetary provision of Rs.3,50,000 out of which Rs. 175,000 would be spent on books, journals and other kindred materials, and a similar amount on staff, implying thereby that the expenditure on books and staff may be equal-But general trend is that the expenditure on staff salaries trends to be higher than on books. Thing into amount the recommendations of University Grants Commission, university and education commissions and library experts, the general norms appear to be as follows:

Salaries and allowances	50%
Books	20%
Periodicals	13%
Binding	75%
Others (Supplies, Maintenance etc.)	10%

In the case of public libraries, the distribution is more or less the same for the major items of expenditure.

Salaries and allowances	50%
Books	20%
Periodicals and Newspapers	5%
Binding	5%
Others	20%

Some Observations: Current thinking on library and information services, library budgeting and related aspects, is on the following lines:

- Library and information services are to be totally oriented to user needs, irrespective of the types of libraries. User needs must be systematically assessed and obtained, on the basis of which libraries should organise their services.
- Library budgets, consequently, are to be in tune with need based services.
- The unit cost of every operation in a library has to be worked out and budgetary estimates have to be built on this data. The cost of library operations and services, particularly in India, is not attempted. Libraries mostly operate on appropriated funds by the parent organisations without any scientific basis for allotment. Cost accounting is essential for fixing budgetary estimates.
- With the tremendous increase in the cost of books, journal subscriptions, staff salaries, library and information services, etc., the question very often arises whether library services should be continued to be given without any charge. Some of these services like literature search, document supply, compilation of bibliographies, SDI, CAS etc. can be priced. Of course, in the context of Indian conditions these services may be



subsidised partially. On the whole, a more scientific basis for library expenditure has to be evolved in view of the importance of library services. Library budgeting has to be more innovative and in tune with the new demands.

### Self Check Exercise

3) State what a library budget is along with its attributes.

**Note:** i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

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### 17.2.3 Preparation of Library Budget

The preparation of the budget is the responsibility of the chief librarian who also has the responsibility for allocating and administering funds within the overall activities and services of the library. This responsibility can be delegated to the next level department or section heads but the overall coordination and accountability still rests with the chief librarian. Adequate discussion should take place between the chief librarian and his section heads, When the information needed for making the estimates for the library budget has been assembled the next step is the preparation of the budget itself. Preparation of a budget takes substantial time and efforts. Generally during the middle of a financial year, budget estimates (BE) for the next financial year and revised estimates (RE) for the current financial year are called for by the office concerned. Estimates are prepared on the basis of past experience, present demands and future expectations of requirements. The estimates should take into account the actual expenditure of the previous financial year, spillover's, if any, amount spent up to the date of preparation of the budget during the current financial year; foreign exchange (FE) requirements (if any), advance commitments to be made for the next financial year, capital items, etc. No set of rules can be given for preparing this statement, but the librarian should bear in mind the impact of inflation on the cost of books, periodicals, binding, and other supplies. The increase in enrolment, the probable need for annual salary increases at least comparable to those of the past five years and the possible impact of new technological developments on library economy and efficiency are some of the other factors. The librarian discusses the budget proposals with the sectional and departmental heads before the final consolidation. Budget requirements are filled up in a proforma approved by the institution. The proforma commonly used for a historical budget in academic libraries is of two types. i) Schedule of expenditure on pay and allowances of staff and ii) Schedule of expenditure on all other items. These two schedules of expenditure are usually made under the following heads.

#### Schedule of expenditure on staff salaries

It is usually prepared under the following heads:

- 1) Serial number
- 2) Designation of staff member
- 3) Pay stale
- 4) Basic pay. on 1st April
- 5) Total for twelve months
- 6) Date of increment
- 7) Rate of increment
- 8) Total amount of increment (rate x months)
- 9) Dearness pay rate and amount



- 10) Dearness allowance rate and amount
- 11) House rent rate and amount
- 12) Contribution to GPF/CPF rate and amount-
- 13) Any other honorarium rate and amount
- 14) Interim relief rate and amount
- 15) Total of amounts of columns 5,8 to 14

#### **Schedule of expenditure on all other items**

This contains, inter alia, the following heads:

- 1) Establishment
- 2) Salaries
- 3) Allowances
- 4) Contribution to provident fund, gratuity
- 5) Other recurring expenditure
- 6) Binding
- 7) Stationery
- 8) Postage
- 9) Contingency
- 10) Books, periodicals and back sets
- 11) Other non-recurring expenditure
- 12) Construction or expansion of library building
- 13) Maintenance or library building
- 14) Purchase of repair of furniture
- 15) Equipment
- 16) Employing additional staff for specific time and purpose such as processing for books needed for special purposes
- 17) Special collections

As mentioned earlier, all the above items are to be shown in four types, viz., actual expenditure for the last year; estimated expenditure for the current year; revised financial estimates for the current year; and estimated expenditure for the next year. Thus the budget is a linkage between three years.

#### **Contents of a Budget Document**

The budget document is an official document, seen by or circulated to several administrative and financial officials of the parent organisation. Hence it should be self-contained with regard to the activities and services of the library, self-explanatory, well organised and neatly presented. Every item of expenditure with reference to its past allocation and enhanced current requirements must be clearly stated with justification for the extra funds.

The format of contents of a budget document is given below:

Title page indicating the budget estimates for the year...

Contents

Executive summary

A synopsis of the budget

Budget at a glance

Part I Goals and objectives of the library in brief

    Activities and accomplishments of the previous year

    Anticipated activities and proposed targets for the budgeted year

    Future perspectives





Part II Budgetary estimates: a total view of estimates by items on separate page

- Salaries and allowances
- Books and journals
- Database
- Library, documentation and information services
- Equipment
- Software including Hardware
- Stationery, postage, etc.
- Building maintenance
- Contingencies
- Miscellaneous

### **Principles of Budget Making**

The budgets of different libraries vary considerably. Nevertheless, there are some elements which are essential and common for different library budgets. They may be reduced to a few guiding principles and applied to the perpetration of any library budget. These guidelines are discussed below.

The librarian should be invited by the authorities to submit the library budget. The librarian in turn must consult his departmental heads about book funds, and the library staff members about personnel and other administrative costs. The final choice of what goes into the budget and how much to ask for should rest with the librarian.

The librarian should request sufficient funds in each head of the budget to support a sound programme of library development. Calculating the expenditure and anticipating income, inflation rate, foreign exchange rates, salary increases, insurance rate, public utility charges, etc. as well as time-delay are very important.

The budget should be prepared and submitted in time. This facilitates recruitment of additional staff, ordering of materials and so on in a proper way. The budget should represent library planning in terms of educational goals and should not simply be a "crisis" operation in which urgent current needs are hastily converted into rupee estimates to meet a budget deadline. Planning to meet educational goals implies that the library will take into account proposed new curricular changes, the impact of new courses on library books and personnel, the effect of price increases in binding and the like.

The budget should be reasonably flexible in its execution, Classification of the budget categories should enable the library to check its financial records easily against the periodic balance statements.

Some important sources of finance for a library or information centre, as discussed in Unit 16, include (i) regular grants from parent organisation and/or government, (ii) ad hoc grants or subsidies, (iii) fines, fees and service charges.

Important heads of expenditure of an information centre or library (as explained earlier) are (i) collection building and updating (books, journals, reports, etc.), (ii) binding and other maintenance costs, (iii) furniture and equipment, (iv) building, (v) salaries and wages, (vi) stationery, postage, etc.

Depending on the size of the library or information centre and the nature of its parent organisation the complexity of the budget and the budgetary control system may vary from a simple fairly fixed (constant) voted grant of the budget from the parent organisation for books, journals and other reading materials to a most complex situation where grants are received from the parent institution and other agencies in addition to certain revenues earned. These sources of finance may have several restrictions in their deployment. Allocation has



to be done to all heads as explained above and by type of material (i.e., books, journals, reports, etc.), by subjects, or by departments and so on. “Effective budgeting can display endless variety” (Newton, 1981, p1313). The budgeting method used by a library or information centre is normally decided by the parent institution.

### Self Check Exercise

4) State the contents of a budget document.

**Note:** i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

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### Justifying the Budget Request

The final decision about the library budget is often taken by the chief executive of the parent organization. The officials who are responsible for providing library funds will quite naturally want to know why the funds are required. They will consider critically the merits of the library request in relation to those of other departments or agencies and the total financial resources at their disposal. It is probable that funds will not be sufficient to meet all the requirements in full and that budget allocations may be affected accordingly. The library budget request should state separately and clearly the purposes for which funds are requested and explain why additional funds may be required in certain categories. The supportive documentation and justification for the budget has to be developed throughout the year. The justification for the library's budget will already have been made if the arguments for services have been well presented in detailed and timely reports other words, budget preparation should not become a once-a earlier. it is also necessary to understand the "politics" of the budget process and build up effective rapport with the key members of the team or committee.

Sometimes the librarians may think it expedient to present an inflate fact that the authorities usually sanction less than what is ash" practice. Padding the budget is not only ethically questionable but because it is difficult to justify amounts in excess of proven needs, of the college/university or other parent body and, as such, must realize that there are many demands and constraints on the limited resources in the majority of institutions. The librarian should neither minimise the requirements of the library, nor be unduly discouraged if the library committee or finance committee is unable to give all that he asks for because of other pressing and urgent requirements of the parent institution. The best that can be done is to present an honest picture of the cost of running a library, in terms of material needed and of services expected for the clientele. After making an honest budget, the budget request must be accompanied by a free, clear, and forceful argument proving the need for the amount asked. Remember that there is no better way of sowing suspicion in the minds of the usually hard-headed finance authorities than presenting an unrealistically inflated budget.

While preparing the budget you should remind yourself that, regardless of any other values it may have, the budget document must be easily understood and so convincing in its arguments that the appropriating authority will be persuaded to accept it and provide the necessary funds. To produce such a document, you should use all the techniques and supporting data that are available with you.

### Approval of the Budget

The librarian presents the budget to the library committee or any other authority far discussion and approval. The library budget, with the approval and recommendations of the committee, is sent to the university organizations office or any appropriate office to be incorporated in



the total university or organisation budget. The entire university budget is passed by the Executive Council/ Syndicate of the university. Plan requirements of the university library are assessed by the visiting committee of the University Grants Commission. The visiting committee visits the library and discusses the library requirements with the librarian. The approved recommendations are consolidated and submitted for sanction to the University Grants Commission.

In a college, usually the principal of the college approves the library budget, after taking into account the requirements and opinions of the heads of different teaching departments, and the requirements in different subject areas. In public and special libraries, similar procedures are there to get the budget approved and sanctioned by appropriate authorities.

### **Notification of the Budget to the Library**

When the budget is passed, the same is communicated to the library. This includes both plan and non-plan budgets. The plan budget is approved by the university authorities in consultation with the state government wherever necessary (especially when a matching grant is involved). After the budget notification, the university librarian informs the different academic departments regarding the budget allocations. These allocations, in fact, are funds in the names of different departments placed at the disposal of the university librarian. Money is spent by the librarian on items recommended by the heads of the departments. The subject-wise allocations for books and periodicals are done by the library committee. This is purely an internal arrangement of the library after the passing of the budget. If there are differences of opinion on allocations to different subjects, they are usually adjusted, erased and balanced by the library committee. Similarly is the case for special libraries.

### **Budget Excess**

Bill or library commitments which exceed the sanctioned budget, if any, for the library are usually adjusted in two ways, i.e., (i) by adjustment of the excess amount in next year's budget and/ or (ii) by additional allocation subject to agreement by the authorities. However, it has been observed in practice that the second alternative is not only theoretical but also a doubtful and remote possibility. A budget excess adversely reflects on the attitudes and awareness of the management towards the library.

### **Self Check Exercise**

5) If there is an excess in library spending beyond the budgeted allotment, state the methods of adjusting the excess.

**Note:** i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

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## **17.3 USE OF FUNDS, FINANCIAL CONTROL AND ACCOUNTING**

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Most practitioners of librarianship are much concerned and serious about the phase of actual use of funds, accounting, auditing and financial control. This phase in itself involves allocation of funds as envisaged in the budget, encumbering funds under each head, fund accounting and financial audit. Let us briefly discuss some of these aspects in this section.



### **17.3.1 Allocation of Funds**

Allocation of funds might have been based on past practices and performance, differential publication rate and inflation rate, level of demand, actual use and the total programme of the library or information centre. Actual allocation could be by departments/units, by subjects, by type of material, by users, by language or by format. Such an allocation of funds provides better control and a more effective way to monitor funds and has the best chance to achieve fair balance in the development of programmes and services. However, a rigid allocation, particularly for collection development, may lead to difficulty in transferring funds from one account to another and consequently under spending may occur in some cases when the other heads starve for funds. In addition to such ineffectiveness, approval, blanket and standing order plans as well as development of reference, general and special collections may not fit into any heads. Further, matching the needs and money available becomes complicated, time consuming and it may be difficult to develop models even after massive efforts. However, it may be noted that such formal allocation of funds may not be necessary in a small library.

### **17.3.2 Encumbering Funds**

The most difficult task in the budgetary control process in libraries or information centres is encumbering funds. Encumbering funds is a complex process that allows one to set aside money to pay for ordered items. The process of encumbering funds is difficult and complicated for various reasons. Firstly, it is common that there will be other underspending and/ or overspending in some heads. Secondly, there are some uncertainties about supplies (delayed supplies and non-supplies). Libraries make several orders for documents under many heads in a given financial year and supplies are received continuously at non-fixed intervals. Generally there is no automatic cancellation of non-supplied or unbilled orders and hence no disencumbering done automatically. It is very common that prices, discounts and handling charges of documents as well as exchange rates for foreign currencies keep changing frequently causing variation in the value of funds encumbered. Lastly, moving money back and forth by encumbering and disencumbering in a manual system can lead to errors.

### **17.3.3 Financial Control**

It has been stated earlier that the budget is a tracking device to measure progress, highlight variations from the plan and show the need for corrective actions to put the operation back on track. Nobody has the luxury of working without financial restrictions. Nobody gets money without justifying why it is required. Above all, one should be prepared to face both sudden windfalls as well as severe cuts in budgets. The budgetary control system is an example of a system (particularly, the monetary and evaluation techniques of systems analysis) as well as a widely recognised control function of the management.

Budgetary control is one of the oldest and transitional control techniques used by managers. Budgetary control is the process of comparing what was planned with what has been accomplished during the budget period. It is not a past-oriented or post-action control but a future-oriented control system. It is not a post-mortem type assessment but a continuous examination of the progress made, comparing it with the cost standards and time lapsed so that the manager is able to make adjustments in the operation on a day-to-day, week-to-week, or month-to-month basis for the rest of the period of the budget.

As the budget is only a futuristic plan, how far the actual operations of the library or information centre have conformed to the budgeted programme will be known only after the completion of the budget period (i.e., financial year). Knowing post-facto how much deviation or underspending or ineffective utilisation of resources has taken place is like discussing the ways of avoiding accidents after the accident has occurred. Hence continuously monitoring the operations to examine how the operations are carried out, whether there are any deviations, the causes for deviations and ways to rectify deviations within a week or a month will be of immense help. Though the budget is prepared once in a year, the budgetary control process is a day-to-day, week-to-week, fortnight-to- fortnight, month-to-month and quarter-to- quarter activity for a check of all revenues and expenditures budgeted and stated beforehand.



The three basic steps in the control process are establishing standards, comparing: results with standards and taking corrective action. Preparation of the budget is nothing but establishing the cost standard. This process begins with the top management setting goals and objectives and the lower level managers developing budgets for their units and the same successively reviewed and integrated at each higher level. Unlike profit-oriented organisations where the budget for marketing expenses can influence the amount of revenue, the service-oriented and not-for-profit organisations should have different kind of simple matching of revenues and expenses.

Statements relating to commitments and actual expenditure should be regularly checked and continuously reviewed to control the budget. In the actual practice of the budgetary control system, operating statements have to be prepared for each of the budget centres (or heads or items) involved. These statements should form part of the management information system (MIS) used to control the performance of the library or information centre against the budget plan. A good budgetary control system should follow the theory of "management by exception" and focus its attention on matters that are adverse or that show an unusual variation in addition to providing full details of budget statements.

In practice, it may suffice to have monthly reporting in the beginning of the financial year and changing it to fortnightly during later part of the year. However, the unit heads may have data on a daily or weekly basis throughout the year to facilitate operational control and the same need not be sent to the head of the library or information centre. Appendix 1 exhibits a simple proforma operating statement for budgetary control.

### Self check Exercise

6) Why do we need a budgetary control system?

**Note:** i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

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### 17.3.4 Fund Accounting

Accounting means a systematic maintenance of the income and expenditure flow on records. A properly conducted accounting system is a basic prerequisite of efficient financial administration. Its main purpose is to ensure that the library funds are spent correctly, properly and within limits. It also helps in planning future budgets and for making special studies. In other words, the purpose of fund or financial accounting for not-for-profit organisations is to assure proper use of monies provided and to make it possible to track expenditure.

The major part of the fund in a library is the operating fund. For fund accounting purposes the operating fund can be divided into restricted fund and unrestricted fund. Unrestricted fund allows flexibility in use for purposes other than that specified whereas restricted fund cannot be used for other purposes.

The cardinal principle of fund accounting is that every financial transaction is charged to some account and a record exists of what the transaction involved. The fund accounting system should allow for verification of all the transactions and provide an accurate report. Proper fund accounting by allowing one to know how much money is spent, how much is left and how much is encumbered or committed aids the budgetary control process and enables a continuous checking and reviewing of the situation and examination of the need for reallocation or reappropriation of funds. It makes clear to the spender how much amount he has spent and how much is left, so that there is neither under-spending nor over-spending.



It helps the administration to remain alert against misappropriations and maladjustments. Before setting up a book keeping system, the librarian should consult the finance section to determine the procedure of accounting so as to serve best their mutual purposes.

### 17.3.5 Financial Records

All institutions which want to survive must meet certain standards of business organisation and the library is no exception to the general rule. Its financial records, like its budget, should be set up in accordance with the main accounting procedures of the parent office. It is no longer considered a good practice to maintain a separate library account, handled directly by the librarian. In most institutions, all library payments are made through a central office. The finance section of the organisation maintains the library account while the library maintains the records of outstanding orders, bills forwarded, etc.

As stated earlier, the main purpose of library accounting is to keep expenditures within the budget. In addition, accounting helps in the preparation of the annual report and budget, provides the factual monetary basis for making decisions, assists the departments in making a wise and systematic use of funds and provides information for library reports, studies surveys.

Most of the libraries keep their financial records according to a single-entry system. Though a certain amount of diversity is found in the maintenance of financial records in different libraries, one main point to be kept in mind is that these records should be the simplest possible, consistent with efficiency and should permit rapid and convenient checking against office ledgers. Some of the records libraries normally maintain are explained below.

#### a) Cash Book

The cash book is a record in which details of daily cash transactions regarding income and expenditure of an institution are entered. But in many libraries, the librarian does not maintain a cash book, because the financial transactions generally take place through the administrative office, and not directly through the librarian. However, the libraries which take some amount towards contingency expenditure do maintain a record in the form of a cash book.

Here is a specimen of the cash book of a library

RECEIPTS					EXPENDITURE				
DATE	PARTI- CULARS	NO. & DATE OF VOUCHER CREDITED	HEAD OF ACCOUNT TO BE	AMOUNT Rs. Ps.	DATE	PARTI- CULARS	NO. & DATE OF VOUCHER DEBITED	HEAD OF ACCOUNT TO BE	AMOUNT Rs.Ps.
:									
:					:				
Total:					Total:				

#### b) Ledger

A ledger is a book in which the budget provision or income is given at the top and expenditure on all items and subjects is entered one after the other.

Here is a Specimen of a ledger

Name of the library:

Year:

Budget provision:

Rs,

Head:



SL.No.	Name of vendor	Bill No.& date	Amount	Amount passed for payment	Progre-ssive total	No.of books	Subject mark	Signature of librarian
1	2	3	4	5	6	7	8	9

### c) Allocation register or allotment register

In the allocation register accounts are maintained headwise and subjectwise. Separate financial records are maintained in the library for books, periodicals, binding, stationery, contingency, postage, etc. under approved budget heads. It helps us in knowing, at any point of time, how much money under what head and on which subject is spent or committed/ encumbered and how much remains as balance to be spent. Technically speaking, though the ledger and the allocation register are two different records, their purposes are the same.

#### Here is the specimen of an allocation register

Name of library: Year:

Head of demand: Provision of amount allotted: Rs.

Name of library: Year:

Head of demand: Provision of amount allotted: Rs.

S.No.	Name of vendor	Bill No.& date	Amount	Amount passed	Progre-ssive total	Bal-ance	No.of books	Sub-ject	Sign of incharge	Sign of libra-rian
1	2	3	4	5	6	7	8	9	10	11

### d) General invoice register or bill register

The specimen of a bill register is as under

Name of library:

Year:

SL.No.	Bill No.& date	Name of firm	Amount	Sign of librarian	Sign of bill receiver	Remarks
1	2	3	4	5	6	7

In this register the serial numbers given in column one are termed as the voucher number of this bill. The office copy of each bill is arranged in a serial number in a separate file after the same has been processed and paid for. This arrangement helps the library staff in finding out any information regarding any item at any time as the voucher number of the bill links it to all registers in library sections and relevant records.

### e) Monthly expenditure statement

This statement helps the operator of each head of expenditure to know the latest position of the grant at the end of every month. A specimen of the monthly expenditure statement is given below.

Name of library: Year:

Allocation: Rs.

Month	Expenditure	Cumulative expenditure	Balance	Sign	Remarks
April					
May etc.					



**f) Salary bill register**

The salary bill register of the library staff is a detailed document of the salaries during a particularly year. It contains information relating to salary and deductions of library staff. In this register all the entries are made by the accounts section except the leave records of the library staff, which is filled in by the librarian.

**g) Record of petty cash**

In general, petty cash accounts are handled in two ways: (1) Turning fine and replacement money into petty cash directly, (2) Fine and replacement money are collected directly by the accounts office and this amount is made available to the library in the form of petty cash.

**h) Equipment record or history card**

Another useful record for the library is a card file of major equipment. This should be made in duplicate, one copy to be kept in the main administrative office and the other in the library's files. It should indicate the name of the item, the date of purchase, the cost, and such information as serial numbers (e.g. typewriters). This record facilitates equipment purchase and replacement, makes possible a more, considered judgement in placing replacement orders or in deciding repair versus replacement, and also provides an accurate inventory for insurance and other purposes.

**Self check Exercise**

7) State the reasons for keeping financial records.

8) Give the headings of an invoice register.

**Note:** i) Write your answer in the space given below.

ii) Check your answer with the answers given at the end of this Unit.

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**17.3.6 Financial Audit**

Lastly, the financial audit part of the process enables a meticulous but sample scrutiny of financial transactions to have proper control over irregular, inappropriate and wasteful expenditures. Auditing is a scrutiny of the financial transactions of government and semi government bodies. It provides control over irregular, inappropriate and wasteful spending. It is deemed necessary from the authority's point of view for their satisfaction.

Libraries and information centres normally have post-audit by external/central/statutory auditors, who usually look into the loss of reading materials, irregularities in procurement processes and outstanding advance payments and supplies. Even though two types of audit systems are prevalent in our country, government departments and libraries generally follow post-audit. Post-audit means that the drawing and disbursing officer prepares the bills, signs them and sends them to the treasury/bank/principal for payment. The drawing and disbursing officer is responsible for the correctness of the bills. The officer or the librarian must





satisfy himself fully before signing the bill. In the post-audit system, only random audit is resorted to, after the financial year comes to a close. Every item is not checked, but some months are selected at random. Payment items occurring during these selected months are thoroughly and minutely verified. Mistakes, if any, are pointed out. The person concerned is advised and warned to be cautious in future.

The pre-audit system is generally followed in autonomous bodies in which the audit is under the local fund account. In case of pre-audit, no item can be passed for payment unless it has been first audited. The pre-audit system reduces the responsibility of the drawing/disbursing officer in the sense that all the necessary verifications such as checking of items, accessioning of items, charging of approved rates, correctness of calculations, debiting to proper heads of account, etc. have already been done by the audit section in advance. Here instead of the drawing officer, the auditors satisfy themselves before the bills are passed for payment. Auditing is carried out both by an internal audit team as well as an external/statutory audit team. The problem of collecting and noting of vouchers does not arise in pre-audit procedures. This simplifies matters somewhat and reduces the auditing responsibility of the librarian.

**Self Check Exercise**

9) State why auditing is necessary in a library.

- Note:** i) Write your answer in the space given below.  
 ii) Check your answer with the answers given at the end of this Unit.

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**17.4 SUMMARY**

In this unit, we have discussed the library budget, its features and attributes. A library, being a service institution, offering its services without any price, does not support itself financially. Funds have to be provided by its parent organisation or by the government. From the appropriations of funds made, it organises and regulates its expenditures for its functions and services according to certain norms and procedures.

There are a few methods of budgeting which include line item budgeting, programme budgeting, performance budgeting, planning programming budgeting systems and zero-base budgeting. These methods are briefly explained.

Budgets are usually prepared in conformity with standard norms, particularly with reference to the distribution of funds towards different competing items of expenditure. In Indian libraries the conventional line item budgeting is rnmmon. The proportion of funds for staff salaries is generally more than that of books and journals in any library. A few helpful guidelines are provided to prepare budgets. The contents of the budget document, justification for expenditure and other usual budget formalities are also explained in this unit.

While the budget is a financial statement which provides details of the proposed revenues and their utilisation for expenditure for a specific period, the budgetary control is the process of comparing what was planned with what has been accomplished during the period. Libraries and information centres have certain peculiarities as service-oriented and not-for-profit organisations and hence implementation of budgeting and the budgetary control system in such institutions is more difficult than in profit-oriented organisations.

Budget and the budgetary control system have many merits like use of the rupee as a common denominator, dealing directly with the efficiency, of the organisation, stimulating good management practices, detecting deviations, suggesting corrective actions, facilitating centralised control and availing of be collective wisdom of the people involved.



The final aspect of financial management is that of keeping an accurate records of the money spent, and of the remaining balance. There are standard procedures and rules for maintaining different types of records of expenditure which are described with examples. Library expenditure is subject to audit to ensure that the expenditure has been according to norms, rules and procedures.

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### **13.5 ANSWERS TO SELF CHECK EXERCISES**

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- 1) The methods of budgeting are: (i) Line-by-line budgeting (ii) Formula budgeting (iii) Programme budgeting (iv) Performance budgeting (v) Planning programming budgeting system (vi) Zero-base budgeting.
- 2) Zero-base Budgeting (ZBB) is a new concept in budgeting which bases its' expenditure estimates on specific programmes and their performance without any reference to their past expenditure. It requires fresh estimates to be made for every activity, commencing from point zero. Each activity has to be justified. In fact, the entire budget has to be justified from scratch.
- 3) A library budget is a record of funds appropriated to it and the estimated expenditure for a financial year. This record serves as a guide to the library's functions, activities, programmes and services throughout the year. The appropriations of funds and the estimated expenditure should balance each other. It is an instrument of control, communication, coordination, evaluation and motivation.
- 4) The contents of a budget document, besides the title page and contents, includes the following: budget at a glance; goals and objectives of the library in brief, activities and accomplishments of the previous year; activities and proposed targets of the budgeted year; detailed statement of the expenditure estimated for the budgeted year along with the past year, on all the activities or items of expenditure.
- 5) Excess expenditure beyond' the estimated expenditure is adjusted in the following ways: i) The excess amount is shifted to the next year's budget, subject to the approval of the financial and administrative authorities (ii) Making a special request for funds for the extra expenditure, subject to the approval of the financial and administrative authorities.
- 6) The budget is a futuristic plan. Actual performance may or may not conform to the budget due to various reasons. Instead of knowing whether actual performance varied from the budgeted target after the budget period, it is better to periodically monitor and know the deviations from the set budget so that wherever possible necessary adjustments can be effected during the subsequent periods to make actual performance come close to budgeted targets. It is exactly for this purpose that a budgetary control system is needed.
- 7) Financial records are necessary as they serve the following purposes: i) Help in the preparation of the annual report and the following year's budget preparation; ii) Provide a factual monetary basis for making decisions on book, personnel and other expenditures; iii) Assist the department, in the case of universities, in making a wise and systematic use of their book fund allotment; iv) Provide information for `annual reports, studies and surveys.
- 8) Generally the invoice register has the following headings: Serial Number; Bill Number and date; Name of Firm; Amount; Signature of the Librarian; Signature of bill receiver; Remarks.
- 9) Audit is necessary in libraries to check whether the allotted budgetary funds are spent according to financial procedures, rules and norms. It seeks to control irregular, inappropriate and wasteful expenditure. Audit reports are invariably consulted by administrative and financial authorities to satisfy themselves that the allocated funds have been spent properly and lawfully.



## 17.6 KEY WORDS

<b>Accounting</b>	:	A systematic maintenance of the income and expenditure flow on records.
<b>Auditing</b>	:	Official examination of accounts and scrutiny of financial transactions of a government or non-government body/ institution.
<b>Budget</b>	:	A financial and/or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective.
<b>Budget Centre</b>	:	A section of the organisation or the undertaking defined for the purpose of budgetary control.
<b>Cost Analysis (Analysis of Cost Behaviour)</b>	:	Knowledge of the reaction of individual costs (i.e., fixed, variable and semi-variable costs) and expenses to changes in the volume of activity. Cost analysis helps (i) planning the amount of costs to be incurred in future periods (2) estimating profits from future activities; and (3) determining whether costs have been adequately controlled by those responsible for this.
<b>Cost Centre</b>	:	A location, person or item of equipment, or a group of these in or connected with an undertaking in relation to which costs may be ascertained and used for the purposes of cost control or product costing.
<b>Financial Records</b>	:	Documents which keep track of library expenditure i.e., cash book, ledger, salary bill register, allocation register, etc.
<b>Flexible Budget</b>	:	A budget that recognises the difference in the behaviour pattern of fixed and variable costs and which is designed to change in relation to the level of activity actually attained.
<b>Operating Statement</b>	:	A summary of the operating costs (and, where appropriate, of the revenues and profit margins) of the whole or part of the activities of an enterprise for a given period.
<b>Profit Centre</b>	:	A form of responsibility centre in which a manager is held responsible for both revenues and costs, and hence for the resultant level of profit.
<b>Prospective Pricing</b>	:	Setting the price prior to the performance of the service is called prospective pricing.
<b>Responsibility Centre :</b>	:	A personalised group of cost centres under the control of a "responsible" individual.
<b>Restricted Funds</b>	:	Restricted funds do not allow flexibility in the use of funds. Like grants for specific purposes, restricted funds cannot be used for purposes other than those specified.
<b>Single Entry</b>	:	Entries showing only expenditure.
<b>Unit Cost</b>	:	Cost of a single unit of operation, e.g. cost of cataloguing a single book.
<b>Unrestricted Funds</b>	:	Unrestricted funds allow flexibility in the use of funds and reallocation of funds from one head to another.



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## 17.7 REFERENCES AND FURTHER READING

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APPENDIX 1



PERFORMA OPERATING STATEMENT FOR BUDGETARY CONTROL

PART 1: REVENUES

Period	Recurring grant	Revenues expected from					Ad hoc grants from	Grand
	from parent orgn*	membership & services	other sources	Total	Coln	Eqpt	Furn	Total
Apr 91								
May 91								
Jun 91								
Jul 91								
Aug 91								
Sep 91								
1-15 Oct 91								
16-31 Oct 01								
1-15 Nov 91								
16-30 Nov 91								
1-15 Dec 91								
16-31 Dec 91								
-15 Jan 92								
6-31 Jan 92								
-15 Feb 92								
6-29 Feb 92								
-15 Mar 92								
6-31 Mar 92								
<hr/>								
	Total							
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**PART 2: EXPENDITURES**

Period	Collection					Total	Eqpt	Furn	Maint	Total	Grand Total
	Bks	Jls	Reps	AV	Others						
	B	A	B	A	B						
Apr 91											
May 91											
Jun 91											
Jul 91											
Aug 91											
Sep 91											
1-15 Oct 91											
16-31 Oct 01											
1-15 Nov 91											
16-30 Nov 91											
1-15 Dec 91											
16-31 Dec 91											
1-15 Jan 92											
16-31 Jan 92											
1-15 Feb 92											
16-29 Feb 92											
1-15 Mar 92											
16-31 Mar 92											
<b>Total</b>											

**Key:** B - Budgeted expenditure; A - Actual expenditure.

- Note:**
1. Expenditures like salaries and wages, services, stationery, etc. are not shown.
  2. Cumulated figures of actual expenditure are also not shown.
  3. It is possible to incorporate funds committed in the statement.
  4. Foreign exchange content of expenditure can also be shown, if necessary.