



Sindhi Hindi Vidya Samiti`s  
**DADA RAMCHAND BAKHRU SINDHU MAHAVIDYALAYA**

( Formerly known as Sindhu Mahavidyalaya )

A Higher Education Premier Institute With CGPA 2.55

# CASH BUDGET

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# INTRODUCTION

- ▶ CASH BUDGET is the most important component of the financial budgets. a good management would keep cash balance at optimum level.
- ▶ The major objectives of cash budget is ,therefore, to plan cash in such a way that the company always maintain sufficient cash balance to meet its needs, and use the idle cash in the most profitable manner.
- ▶ The contents of cash budget are total cash receipts and cash payments over a period of time.
- ▶ In other words, cash budget is an estimated projection of the company's cash position in the future.
- ▶ The inputs to the cash budget come from several budgets. the results of the cash budget are used in the financial budget, which itemizes, debt, and both interest income and interest expense.

# PREPARATION OF CASH BUDGET

- ▶ The cash budget is prepared after the operating budgets sales, manufacturing expenses or merchandise purchases, selling expenses, and general and administrative expenses.

# RECEIPTS AND PAYMENTS

## A) ESTIMATING CASH RECEIPTS-

- . UNDER THIS METHOD ALL ANTICIPATED CASH RECEIPTS ARE CAREFULLY FORECASTED FROM A PARTICULAR PERIOD.
- ▶ Cash receipts from the following sources are estimated-
- ▶ 1) cash sales ;
- ▶ 2) cash receipts from debtors;
- ▶ 3) dividends
- ▶ 4) interest on investments
- ▶ 5) proceeds from sale of asset
- ▶ 6) royalties etc.

## CASH DISBURSEMENTS CONSISTS-

- ▶ 1) cash purchases of raw materials.
- ▶ 2) cash payments to creditors this depend on credit terms extended by suppliers.
- ▶ 3) payment for wages, salaries, to staff, commission.
- ▶ 4) payment for other factory office and administrative and selling and distribution overheads.

# ADVANTAGES OF CASH BUDGET

- ▶ WE CAN AVOID DEBT- If all you are allowed to do is spend the cash you have, then you avoid debt.
- ▶ You are forced to budget better- a cash only budget forces households and business to budget better.
- ▶ You become more resourceful- when you are using a cash budget, you must find efficiencies that you may not seek out if you are using other financial resources and tools. you must find way to save cash, which means you must eliminate all waste from your budget.
- ▶ You stay in touch with reality- you must look at your financial statements, your bills, your obligations, and every expenditure that you make.
- ▶ You are able to communicate your financial position- when a cash budget is used, it is much easier to communicate the current state of your financial health.

# DISADVANTAGES OF CASH BUDGET

- ▶ It creates a danger of theft-cash is the easiest asset to steal, partially because it is not very easy to trace.
- ▶ It limits where you spend your money-if you switch to a cash only budget,you may find it difficult to access some of the services your home or business may require.
- ▶ It can be easy to lose-if you carry cash on you,there is a chance you could inadvertently misplace it.
- ▶ It limits your ability to build a credit profile-cash budgets may limit the amount of debt that you create for yourself.
- ▶ It is not always a reflection of profit-witin a cash budget ,it is easy to mistake an inflow of cash as profit.
- ▶ It relies on estimates to meet future needs-when using a cash budget,the inflows and outflows from the previous year are used to allocate cash for line items in the next year.

# USES OF CASH BUDGET-

- ▶ Used as a projected statement- it helps you formalize the overall planning process.
- ▶ Can assist you in evaluating borrowing needs and repayment plans.
- ▶ Serves as a financial control tool-by allowing you to monitor actual performance versus budget projection.
- ▶ Formalizes the process of integrating plans and objectives for the various enterprises within the business.
- ▶ Directs attention to the management of cash reserves.
- ▶ Helps you assess the relationships, among your marketing and financial plans.



# FORMAT OF CASH BUDGET

	Month 1	Month 1	Month 3
	\$	\$	\$
Receipts:			
Cash sales	xxx	xxx	xxx
Collection from credit sales	xxx	xxx	xxx
Collections from sales of non-current assets	xxx	xxx	xxx
Receipts from loans	xxx	xxx	xxx
Other receipts	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total receipts (a)	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Payments:			
Payment for cash and credit Purchases	xxx	xxx	xxx
Payment for expenses	xxx	xxx	xxx
Cash drawings	xxx	xxx	xxx
Purchase of non-current assets	xxx	xxx	xxx
Repayment of loans or debentures	xxx	xxx	xxx
Other payments	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total payments (b)	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Net receipts (payments) (a-b)	xxx	xxx	xxx
Bank balance at start	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Bank balance at end	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>

## SOLVED EXAMPLE

- ▶ From the following information prepare a cash budget for the months of June and July
- ▶ **Additional Information:**
- ▶ 1) Advance tax of Rs 4,000 payable in June and in December 1994
- ▶ 2) Credit period allowed to debtors is two months
- ▶ 3) Credit period allowed by the vendors or suppliers
- ▶ 4) Delay in the payment of other expenses one month
- ▶ 5) Opening balance of cash on 1st June is estimated as Rs.20,000/-

Month	Credit sales Rs	Credit purchase Rs	Manufacturing Overheads Rs	Selling overheads Rs
April	80,000	60,000	2,000	3,000
May	84,000	64,000	2,400	2,800
June	90,000	66,000	2,600	2,800
July	84,000	64,000	2,000	2,600

# SOLUTION

Particulars	June Rs	July Rs
Opening balance	20,000	26,800
Receipts:		
Sales	80,000	84,000
<b>Total Cash Receipts I</b>	<b>1,00,000</b>	<b>1,10,800</b>
Payments:		
Purchases	64,000	66,000
Manufacturing Overheads	2,400	2,600
Selling Overheads	2,800	2,800
Tax payable	4,000	-----
<b>Total Payments II</b>	<b>73,200</b>	<b>71,400</b>
<b>Balance I-II</b>	<b>26,800</b>	<b>39,400</b>

THANK YOU