

Subject: Financial & Management Accounting

Class: BBA II Sem

Topic Name: Cash Budget & Flexible Budget

The cash budget summarizes the anticipated cash receipts and payments for a specific period. The cash budget helps the management to make an arrangement of cash if sufficient amount of cash is not available at the end of each month. In this way, the company can meet all the operating expenses and all other commitments. On the other hand, if excess of cash is available in anytime, the management can take suitable arrangements for making investment outside the business.

Information required to prepare cash budget

A cash budget is prepared with the help of following information.

1. The amount of budgeted cash sales and credit sales.
2. The time lag between credit sales and collection period.
3. The amount of selling and distribution expenses.
4. The amount of income tax, property tax and sales tax.
5. The amount of budgeted cash purchase and credit purchases.
6. The period of credit allowed by the suppliers.
7. The amount of salaries and wages to be paid.
8. The amount of overhead expenses.
9. Details of capital expenditure.
10. Details of administration expenses and payment of dividend.

Q1. From the following information of Income and Expenditure, prepare a cash budget for the months July to September 2003 :

Months	Sales Credit	Purchase credit	Wages	Other expenses
May	50,000	20,000	5,000	4,000
June	60,000	30,000	5,500	5,000
July	50,000	30,000	6,000	6,000
August	60,000	40,000	5,000	6,500
Sept.	70,000	35,000	5,300	7,000

Additional information is as given below ;

- (1) The customers are allowed a credit of one month and creditors are also allow a credit period of one month.
- (2) Wages are paid on the first of next month.
- (3) Period of payment of other expenses is of one month
- (4) A dividend of ` 8,000 is paid in the month of September.
- (5) Balance of cash on hand 1st July 2003 is ` 50,000

Ans:-

Cash Budget

For three months July 2003 to Sept. 2003

Particulars	July	Aug	Sept
A) Opening Balance	50,000	69,500	77,500
B) Cash Receipts			
1)Cash Sale	--	--	--
2)Credit sale realized	60,000	50,000	60,000
Total Receipts	1,10,000	1,19,500	1,37,500
C) Cash Payments:			
1) Payment to supplier	30,000	30,000	40,000
2)Wages	5,500	6,000	5,000
3) Other expenses.	5,000	6,000	6,500
4)Dividend	--	--	8,000
Total Payments	40,500	42,000	59,500
Closing Balance B-C	69,500	77,500	78,000
Total	1,10,000	1,19,500	1,37,500

Q2. The income and expenditure forecasts for months oyn,f March to August 2008 are given below ;

Month	Credit sale	Credit purchases	Wages	Factory Overhead	Office exp	Selling Exp
March	60,000	36,000	9,000	3,500	2,000	4,000
April	62,000	38,000	8,000	3,750	1,500	5,000
May	64,000	33,000	10,000	4,000	2,500	4,500
June	58,000	35,000	8,500	3,750	2,000	3,500

July	56,000	39,000	9,500	5,000	1,000	3,500
August	60,000	34,000	8,000	5,200	1,500	4,500

Additional information :-

(1) Plant costing `16,000 is due for delivery in July payable 10% on delivery and the balance after 3 months

(2) Advance tax of `8,000 each is payable in March and June

(3) Creditors allowed 2 months credit and debtors are paying one month late. Opening balance of cash `8,000 .Lag of one month in expenses.

Prepare a cash budget for the month May to July.

Ans:-

Cash Budget

For three months May to July

Particulars	May`	June`	July`
A) Opening Balance	8,000	15,750	12,750
B) Cash Receipts			
1)Cash Sale			
2)Credit sale realized	62,000	64,000	58,000
Total Receipts	70,000	79,750	70,750
C) Cash Payments:			
1) Cash Purchases			
2) Payment to supplier	36,000	38,000	33,000
3)Wages	8,000	10,000	8,500
4) Factory overhead	3,750	4,000	3,750
5)Office exp.	1,500	2,500	2,000
6)Selling exp.	5,000	4,500	3,500
7)Dividend	-	8,000	-
8) Machine Installment	-	-	1,600
Total Payments	54,250	67,000	52,350
Closing Balance B-C	15,750	12,750	18,400

Flexible Budget

Flexible budget is prepared for any level of production as an estimate of statement of all expenses i-e the expenses are classified into three categories viz variable, semi-variable and fixed expenses. The structure of the budget for any output is only to the tune of the actual performance achieved. This is the budget facilitates not only to have comparison in between various levels of production but also to identify the level of lowest production cost.

Utilities of the flexible budget:

- This budget is most useful tool of analysis in studying the sales at when the circumstances are not warranting to predict
- It is mostly suited to the seasonal business, where the sales volume is getting differed from one period to another due to changes taken place in the taste and preferences of the buyers
- The production is being done on the basis of demand of the products in the market. The demand of the products is studied only through demand forecasting. The flexible budget is more applicable in the case of products, which are greatly finding difficult to forecast the demand
- The budget is prepared only during the time of acute shortage of resources of production viz Men, Material and so on

Q1. The following information at 50% capacity is given, Prepare flexible budget and forecast the profit or loss at 60%, 70% and 90% capacity :-

	Expenses at 50% Capacity
Fixed expenses:-	`
Salaries	1,00,000
Rent and taxes	80,000
Depreciation	1,20,000
Administrative Expenses	1,40,000
Variable Expenses :-	
Materials	4,00,000
Labor	5,00,000
Others	80,000
Semi variable Exp.:-	

Repairs	2,00,000
Indirect labor	3,00,000
Others	1,80,000

It is estimated the fixed expenses will remain constant at all capacities. Semi variable expenses will not change between 45% and 60% capacity, will rise by 10% between 60% and 75% capacity, a further increase of 5% when capacity crosses 75%.

Estimated sales at various level of capacity are :

Capacity	Sales(₹)
60%	22,00,000
70%	26,00,000
90%	30,00,000

Ans. Flexible Budget

For the period ended on

Particulars	50%	60%	70%	90%
Fixed expenses:-				
Salaries	1,00,000	1,00,000	1,00,000	1,00,000
Rent & Taxes	80,000	80,000	80,000	80,000
Depreciation	1,20,000	1,20,000	1,20,000	1,20,000
Admn.exp.	1,40,000	1,40,000	1,40,000	1,40,000
Total A	4,40,000	4,40,000	4,40,000	4,40,000
Semi Variable expense:-				
Repairs	2,00,000	2,00,000	2,20,000	2,31,000
Indirect Labor	3,00,000	3,00,000	3,30,000	3,46,500
Other	1,80,000	1,80,000	1,98,000	2,07,900
Total B	6,80,000	6,80,000	7,48,000	7,85,400
Variable expenses:-				
Material	4,00,000	4,80,000	5,60,000	7,20,000
Labor	5,00,000	6,00,000	7,00,000	9,00,000

Others	80,000	96,000	1,12,000	1,44,000
Total C	9,80,000	11,76,000	13,72,000	17,64,000
Total A+B+C	21,00,000	22,96,000	25,60,000	29,89,400
Profit /Loss	-	(-)96,000	40,000	10,600
Sales	-	22,00,000	26,00,000	30,00,000

Q2. Draw up a flexible Budget for overhead expenses on the basis of the following data and determine overheads at 70%, 80% and 90% capacity :

At 80% Capacity `

Fixed Overheads :

Depreciation	1,10,000
Insurance	30,000
Salaries	1,00,000

Semi Variable Overheads:-

Power [30% Fixed,70% Variable]	2,00,000
Repairs and Maintenance [60% Fixed, 40% Variable]	20,000

Variable overheads:

Indirect Labor	1,20,000
Stores including spares	<u>40,000</u>

Total Overheads 6,20,000

Ans:-

Flexible Budget

For the period ended on

Particulars	Capacity					
	70%		80%		90%	
	Per Unit	Total	Per Unit	Total	Per Unit	Total
(A)Fixed Cost						
Depreciation		1,10,000		1,10,000		1,10,000
Insurance		30,000		30,000		30,000
Salaries		1,00,000		1,00,000		1,00,000
Total A		2,40,000		2,40,000		2,40,000
(B)Semi- Variable Cost						
Power Fixed		60,000		60,000		60,000
Variable		1,22,500		1,40,000		1,57,500
Repair Fixed		12,000		12,000		12,000
Variable		7,000		8,000		9,000
Total B		2,01,500		2,20,000		2,38,500
(C)Variable Cost						
Labour		1,05,000		1,20,000		1,35,000
Store		35,000		40,000		45,000
Total B		1,40,000		1,60,000		1,80,000
Total A+B		5,81,500		6,20,000		6,58,500