

DEPARTMENT OF COMMERCE (CA)

Management Accounting

Sem: VI

Sub code: 18BCA61E

Unit - V - III B.Com CA

Budgeting - Budgetary Control -
Functional Budgets - Cash budgets
flexible budgets - Zero Based Budget.

Books References:

1. Management Accounting
- I. M. Pandey.
2. Management Accounting
- T. S. Reddy & Y. Hari Prasad Reddy

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Budgeting and Budgetary Control

Budget:

A budget is the Monetary and/or quantitative expression of business plans and policies to be pursued in the future period of time.

Budgeting: Budgeting is preparing budgets and other procedures for planning, coordination and control of business enterprise.

Budgetary Control:

Budgetary Control is the process of preparation of budgets for various activities and comparing the budgeted figures for ascertaining at deviations if any, which are to be eliminated in future.

Essentials of Budgeting

- * Support of top management
- * Participation by responsible executives
- * Reasonable goals.
- * Clearly defined Organisations
- * Continuous budget-education
- * Adequate accounting system
- * Constant-vigilance
- * Maximum Profits
- * Cost of the system
- * Integration with standard costs.

Classification of Budgets:

A. Classification according to time

- * Long Term budgets
- * Short Term budgets
- * Current budgets.

B. Classification on the basis of ^{functions} flexibility

- * Functional Budget
- * Master budget

a. Classification on the basis of flexibility

- * Fixed budget.
- * flexible budget

Some Important Budgets

- * Flexibility budget
- * Cash budget
- * Sales budget
- * Production budget & Production cost budget
- * purchase budget

Flexibility Budget

Problem - 1

Draw up a flexible budget for production at 75% and 100% Capacity on the basis of the following data for a 50% activity

	<u>Per unit ₹</u>
	100
Materials	50
Labour	10
Variable expenses (direct)	
Administrative expenses (50% fixed)	40000
Selling and distribution expenses (60% fixed)	50000
Present- Production (50% activity)	1000 units.

Solution:

Flexible Budget

Particulars	Capacity Levels:					
	50% (1000) Per unit	₹ (1000)	75% (1500) Per unit	₹ (1500)	100% Per unit	₹
Materials	100	100000	100	150000	100	200000
Labour	50	50000	50	75000	50	100000
Variable Expenses	10	10000	10	15000	10	20000
Prime Cost-	160	160000	160	240000	160	320000
Add: Ad. Expenses						
Variable 50%	20	20000	20	30000	20	40000
Fixed 50%	20	20000	13.33	20000	10	20000
Cost of Production	200	200000	193.33	290000	190	380000
Add: Selling & Dist Expenses						
Variable 40%	20	20000	20	30000	20	40000
Fixed 60%	30	30000	20	30000	15	30000
Total Cost-	250	250000	233.33	350000	225	450000

Cash Budget

Problem : 1

From the following data forecast the Cash position at the end of April, May and June 2008.

Month	Sales	Purchase	Wages	Sales exp.
February	120000	80000	10000	7000
March	130000	98000	12000	9000
April	70000	100000	8000	5000
May	116000	103000	10000	10000
June	85000	80000	8000	6000

Further Information :

- * Sales at 10% realised in the month of sales.
- * Balance equally realised in two subsequent months
- * Purchases: Creditors are paid in the month of following the month of supply.
- * Wages: 20% paid in arrears in the following month.
- * Sundry expenses paid in the month itself.
- * Income tax Rs 20000 payable in June.
- * Dividend Rs 12000 payable in June.
- * Income from investments Rs 2000 received half yearly in March & September.
- * Cash Balance on hand as on 1/4/2008 Rs 40000

Solution: Cash Budget for Three Months ending June 2008

Particulars	April ₹	May ₹	June ₹
Opening Balance of cash	40000	47700	29700
<u>Add:</u> Receipts of Cash			
Cash Sales	7000	11,600	8500
Cash from debtors:			
1 st month	58500	31500	52200
2 nd month	54000	58500	31500
Total Receipts (I)	159500	149300	121,900
<u>Payments:</u>			
Creditors for purchases	98000	100000	103000
Wages: current	6400	8000	6400
Arrears	2400	1600	2000
Sundry Exp.	5000	10000	2000
Income Tax	-	-	20000
Dividend	-	-	12000
Total Payments (II)	111,800	119600	149400
Closing Balance of Cash (I - II)	47700	29700	-27500 (OD)

Sales Budget

Problem:

Quick Products Ltd. sells two products X and Y in two divisions North and South.

The following were the budgeted and actual sales for the year 2009.

	Budget-				Actual.			
	North		South		North		South	
	Units	Rs	Units	Rs	Units	Rs	Units	Rs
Product X	500	180	300	180	600	180	400	180
Product Y	300	430	200	430	200	430	150	430

For the year 2000, the board of directors has approved the proposal of sales department to increase the price 'X' to Rs 200 and decrease the price of 'Y' to 400. The sales estimates from the divisional managers were as follows:

North: X - 800 units Y - 500 units
 South: X - 600 units Y - 300 units.

An Intensive Advertising Campaign proposed by advertising consultant is expected to result in additional sales of 20% of each product in each division over the estimated sales. Prepare the sales budget for the year 2000 and present it together with the budgeted and actual sales for 1999.

Quick Products Ltd.

Solution:

Sales Budget for the Year 2000

Division Product		Budget for 2000			Budget for 1999			Actual Sales for 1999		
		Qty	Price Per unit	Amount	Qty	Price	Amount	Qty	Price	Amount
North	X	960	200	192000	500	180	90000	600	180	108000
	Y	600	400	240000	300	430	129000	200	430	86000
	Total	1560	-	432000	800	-	219000	800	-	194000
South	X	720	200	144000	300	180	54000	400	180	72000
	Y	360	400	144000	200	430	86000	150	430	64500
	Total	1080	-	288000	500	-	140000	550	-	136500
Total	X	1680	200	336000	800	180	144000	1000	180	180000
	Y	960	400	384000	500	430	215000	350	430	150500
	Total	2640	-	720000	1300	-	359000	1350	-	330500

Production Budget

Problem:

You are required to prepare a Production Budget for the half year ending June 2000 from the following information:

Product	Budgeted sales quantity units	Actual Stock 31-12/1999 units	Desired Stock 30/6/2000 units
S	20000	4000	5000
T	50000	6000	10000

Solution:

Production Budget for the year ending 30/6/2000

Particulars	Product S (units)	Product T (units)	Total units
Sales (Budgeted)	20000	50000	70000
Add closing stock } desired }	5000	10000	15000
	25000	60000	85000
<u>less:</u> opening stock	4000	6000	10000
Quantity to be produced	21000	54000	75000