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## **Understanding Cash Budget**

The other name of cash budget is finance budget. This budget is the most important of all the functional budgets. But, this budget is prepared after the preparation of all other functional budgets.

The cash budget summarizes the anticipated cash receipts and payments for a specific period. The cash budget helps the management to makes 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 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.

## **METHODS OF PREPARING CASH BUDGET**

There are three methods of preparing a cash budget. They are briefly explained below:

### **1. Receipts and Payments Method**

Under this method, ****cash budget is prepared in columnar basis****. There are two parts. First part is receipts and second part is payments. The total receipts are added with opening balance of cash and deducted the payments to get closing balance of cash. If receipts are more than payments, there is a surplus of cash at the end of the month and vice-versa.

### **2. Adjusted Profit and Loss Method**

This method is also called the c****ash flow statement****. This type of budget is ****prepared for long period****. It ****gives more details of incomes and expenses**** in connection with long term planning.

The profit is considered to be equivalent to cash. Even though, cash receipts and payments are not into consideration but considers only non-cash transactions to prepare the cash budget under this method. The profit is adjusted by adding back depreciation, provisions, stock, work in progress, capital receipts, decrease in debtors, increase in creditors and by deducting dividends, capital payments, increase in debtors, increase in stock and decrease in creditors. The ****adjusted profit is the closing balance of cash****.

The following information is necessary to prepare the cash budget under adjusted profit and loss method.

1. Expected opening balance.
2. Net profit for the period.
3. Changes in current assets and current liabilities.
4. Capital receipts and capital expenditure.
5. Payment of dividend.

### **3. Balance Sheet Method**

This method is very ****similar to adjusted profit and loss method****. Under this method, all the items of balance sheet are recorded in respective sides except cash. Then, the ****balance sheet is balanced****. If the liabilities side is heavier than assets side, the balancing figure is cash at bank. Likewise, if the assets side is heavier than liabilities side, the balancing figure is overdraft.