ISDM (INDEPENDENT SKILL DEVELOPMENT MISSION

ADVANCED ACCOUNTING & FINANCIAL MANAGEMENT (WEEKS 13-14)

BUDGETING, VARIANCE ANALYSIS & BUSINESS PLANNING

CHAPTER 1: UNDERSTANDING BUDGETING

1.1 What is Budgeting?

Budgeting is the process of **planning and allocating financial resources** for a business over a specific period. It helps in controlling expenses, forecasting revenues, and ensuring that financial goals are met efficiently.

1.2 Importance of Budgeting in Business

✅ **Financial Control** – Helps in managing cash flow and controlling overspending.

✅ **Forecasting & Planning** – Predicts future revenues, expenses, and profits.

✅ **Performance Evaluation** – Assists in measuring actual performance against planned targets.

✅ **Risk Management** – Identifies potential financial risks in advance.

1.3 Types of Budgets

📌 **1. Operating Budget** – Covers day-to-day business expenses like salaries, rent, and utilities.
📌 **2. Capital Budget** – Plans for large investments like machinery, buildings, or technology.
📌 **3. Cash Flow Budget** – Ensures the company has enough liquidity to meet short-term obligations.
📌 **4. Sales Budget** – Estimates projected revenue from sales activities.
📌 **5. Production Budget** – Plans for raw materials, labor, and manufacturing costs.

📌 **Example:** A retail business **allocates ₹50 lakhs** for expenses, including **₹20 lakhs for inventory, ₹10 lakhs for salaries, ₹5 lakhs for marketing, and ₹15 lakhs for operations**. This helps in tracking spending and achieving financial stability.

📌 **Exercise:** Prepare a **monthly budget** for a small bakery, including expenses for **rent, ingredients, staff wages, and marketing**.

CHAPTER 2: VARIANCE ANALYSIS

2.1 What is Variance Analysis?

Variance Analysis is the process of comparing **budgeted figures with actual performance** to identify discrepancies. Businesses use variance analysis to assess financial health and make informed decisions.

2.2 Importance of Variance Analysis

✅ **Identifies Cost Overruns** – Helps find areas where actual expenses exceed the budget.

✅ **Improves Forecast Accuracy** – Helps businesses make better financial predictions.

✅ **Enhances Profitability** – Allows companies to take corrective actions to increase efficiency.

✅ **Tracks Business Performance** – Compares actual revenue and costs with expected figures.

2.3 Types of Variances

📌 **1. Sales Variance** – Difference between actual sales and projected sales.

📌 **2. Cost Variance** – Compares budgeted vs. actual production costs.

📌 **3. Profit Variance** – Difference between expected and actual profit.

📌 **4. Material Variance** – Compares actual material usage and budgeted quantity.

📌 **5. Labor Variance** – Measures efficiency in labor costs and productivity.

2.4 Formula for Variance Calculation

➞ **Variance = Actual Value - Budgeted Value**

➞ **% Variance = (Variance ÷ Budgeted Value) × 100**

📌 **Example:** A company estimated **₹10,00,000** in sales but generated **₹9,00,000**.

➞ **Sales Variance = ₹9,00,000 - ₹10,00,000 = -₹1,00,000**

➞ **% Variance = (-₹1,00,000 ÷ ₹10,00,000) × 100 = -10%** (Indicates lower-than-expected sales).

📌 **Exercise:** Calculate **profit variance** for a company that **budgeted ₹5,00,000 in profit but earned ₹6,00,000**.

CHAPTER 3: BUSINESS PLANNING

3.1 What is Business Planning?

Business Planning is the process of defining **business goals, strategies, and financial planning** to ensure success. A well-structured business plan provides **guidance on operations, marketing, budgeting, and financial management**.

3.2 Importance of Business Planning

✅ **Defines Clear Objectives** – Helps businesses set and achieve financial targets.
✅ **Attracts Investors** – A strong plan is essential for securing funding and loans.
✅ **Manages Risks** – Identifies market risks and mitigation strategies.
✅ **Improves Decision-Making** – Provides a roadmap for strategic choices.

3.3 Key Components of a Business Plan

📌 **1. Executive Summary** – Overview of the business, mission, and goals.
📌 **2. Market Analysis** – Research on industry trends, competitors, and customer demographics.
📌 **3. Organizational Structure** – Defines management roles and company hierarchy.
📌 **4. Financial Plan** – Includes budgeting, revenue projections, and cost analysis.
📌 **5. Marketing Strategy** – Outlines how the business will attract customers.

📌 **Example:** A startup creating a **food delivery app** develops a business plan including **target customers, investment**

requirements, revenue model, marketing campaigns, and competitor analysis.

📌 **Exercise:** Draft a **one-page business plan** for an **e-commerce startup**, including financial projections and marketing strategy.

CHAPTER 4: BUDGETING, VARIANCE ANALYSIS & BUSINESS PLANNING IN TALLY

4.1 Setting Up a Budget in Tally

- **Step 1: Enable Budgeting in Tally**
  - Go to **Gateway of Tally > F11: Features > Accounting Features**.
  - Enable **"Maintain Budgets & Controls"**.
- **Step 2: Create a New Budget**
  - Navigate to **Gateway of Tally > Accounts Info > Budgets > Create**.
  - Name the budget (e.g., "Annual Sales Budget").
  - Set the **Period, Type (Revenue/Expense), and Budget Amount**.
- **Step 3: Apply Budget to Ledger Accounts**
  - Assign the budget to **Sales, Expenses, or Other Accounts**.
  - Save and apply.

📌 **Example:** A business sets a **Marketing Budget of ₹5,00,000** in Tally. If **₹5,50,000 is spent**, the system generates a **variance report showing ₹50,000 overspending**.

📌 **Exercise:** Create a **monthly expense budget** in Tally for a **manufacturing company**.

4.2 Performing Variance Analysis in Tally

🔹 **Step 1: Open Variance Report**

- Go to **Gateway of Tally > Display More Reports > Budgets & Variance**.

🔹 **Step 2: Select Budget & Compare**

- Choose the budget and **view actual vs. budgeted figures**.
- Identify **positive or negative variances**.

📌 **Example:** A company **budgeted ₹20 lakhs for sales** but achieved **₹25 lakhs**. Tally's variance report shows a **positive variance of ₹5 lakhs (25%)**.

📌 **Exercise:** Generate a **budget variance report** in Tally for a **company with multiple expense categories**.

4.3 Business Planning in Tally

🔹 **Step 1: Generate Financial Statements**

- Use **Profit & Loss Statements, Balance Sheets, and Cash Flow Reports**.

🔹 **Step 2: Analyze Performance Trends**

- View **Tally reports** to track growth trends.

🔹 **Step 3: Forecast Future Performance**

- Use **previous reports to predict sales & expenses** for the next year.

📌 **Example:** A retail company reviews **last year's sales trends in Tally** and predicts **next year's revenue growth based on seasonal demand**.

📌 **Exercise:** Analyze **last year's Profit & Loss Report in Tally** and create a **forecast for next year's revenue**.

Conclusion

Budgeting, Variance Analysis, and Business Planning are essential for **financial control, cost management, and growth strategy**. Using **Tally** for budgeting and analysis simplifies financial planning, ensuring businesses remain profitable.

📌 **Final Exercise:**

1. Create an **annual budget** for a **small business in Tally**.
2. Compare **actual vs. budgeted expenses** and generate a **variance report**.
3. Develop a **one-year business plan** for a **startup** using real financial data.

LOAN TRANSACTIONS, INTEREST & EMI CALCULATIONS

CHAPTER 1: UNDERSTANDING LOAN TRANSACTIONS

1.1 What is a Loan Transaction?

A **loan transaction** refers to borrowing money from a lender (bank, NBFC, or financial institution) with an agreement to repay it over time, typically with interest. Loans are taken for various purposes, including:

✅ **Business Expansion** – Companies take loans to fund operations, purchase assets, or expand.
✅ **Personal Needs** – Individuals borrow for home purchases, vehicles, or education.
✅ **Working Capital** – Businesses take short-term loans to cover daily operational expenses.

1.2 Types of Loans

📌 **A. Secured Loans** – Backed by collateral (e.g., home loans, car loans, gold loans).
📌 **B. Unsecured Loans** – No collateral required (e.g., personal loans, business loans).
📌 **C. Short-Term Loans** – Repaid within a year (e.g., overdraft facilities, payday loans).
📌 **D. Long-Term Loans** – Repaid over multiple years (e.g., mortgages, education loans).

📌 **Example:** A manufacturing company takes a **₹50 lakh loan** at **10% annual interest** for purchasing machinery. The loan is **secured against company assets** and has a repayment tenure of **5 years**.

📌 **Exercise:** Identify five businesses that commonly take loans and the types of loans they require.

CHAPTER 2: UNDERSTANDING LOAN INTEREST

2.1 What is Interest on a Loan?

Interest is the cost of borrowing money, expressed as a **percentage of the loan amount**. It is the lender's income for providing funds.

2.2 Types of Interest Rates

📌 **A. Simple Interest (SI)** – Interest is calculated only on the **principal amount**.

➞ **Formula:**

$$SI = \frac{P \times R \times T}{100}$$

Where:

✅ **P = Principal Amount**

✅ **R = Interest Rate per annum**

✅ **T = Time in years**

📌 **Example:** A person borrows ₹1,00,000 at an **8% annual simple interest** for **3 years**.

$$SI = \frac{1{,}00{,}000 \times 8 \times 3}{100} = ₹24{,}000$$

Total repayment = Principal + Interest = **₹1,24,000**.

📌 **B. Compound Interest (CI)** – Interest is calculated **on both principal and accumulated interest**.

➞ **Formula:**

$$A = P \times \left(1 + \frac{R}{100}\right)^{T}$$

Where **A = Final Amount, P = Principal, R = Rate of Interest, T = Time**.

📌 **Example:** If ₹1,00,000 is borrowed at **10% annual compound interest** for **3 years**:

$$A = 1,00,000 \times (1+10/100)^3 = 1,33,100$$

Total repayment = **₹1,33,100**, with interest **₹33,100**.

📌 **Exercise:** Calculate **simple & compound interest** for a loan of ₹2,00,000 at **12% interest for 5 years**.

CHAPTER 3: EMI (EQUATED MONTHLY INSTALLMENTS) CALCULATIONS

3.1 What is an EMI?

An **Equated Monthly Installment (EMI)** is the **fixed monthly payment** made to repay a loan, covering both **principal and interest**.

3.2 EMI Calculation Formula

$$EMI = \frac{P \times R \times (1+R)^N}{(1+R)^N - 1}$$

Where:

✅ **P = Loan Principal Amount**

✅ **R = Monthly Interest Rate (Annual Rate / 12 / 100)**

✅ **N = Loan Tenure in Months**

3.3 EMI Calculation Example

📌 **Example:** A business takes a **₹10,00,000 loan** at an **8% annual interest rate** for **5 years (60 months)**.

➞ Monthly Interest Rate = $\frac{8}{12 \times 100} = 0.00667$

➞ Loan Tenure = **60 months**

$$EMI = \frac{10{,}00{,}000 \times 0.00667 \times (1 + 0.00667)^{60}}{(1 + 0.00667)^{60} - 1}$$

📌 **Final EMI Calculation (Using Online EMI Calculator):** ₹20,277 per month.

📌 **Total Payment = ₹20,277 × 60 = ₹12,16,620**

📌 **Total Interest Paid = ₹12,16,620 - ₹10,00,000 = ₹2,16,620**

📌 **Exercise:** Calculate the EMI for a **₹5,00,000 loan** at **10% interest for 3 years**.

CHAPTER 4: LOAN ACCOUNTING ENTRIES IN TALLY

4.1 Steps to Record Loan Transactions in Tally

🔹 **Step 1: Create Loan Ledger**

- Go to **Gateway of Tally > Accounts Info > Ledger > Create**.
- Name: **Loan from XYZ Bank**.
- Group: **Secured Loans (if collateral-based) or Unsecured Loans**.

🔹 **Step 2: Record Loan Receipt Entry**

➞ When a business receives a loan of ₹5,00,000 from a bank:

📌 **Journal Entry:**

Bank A/c Dr. ₹5,00,000

To Loan A/c ₹5,00,000

🔹 **Step 3: Record EMI Payment**

➞ If the EMI paid is ₹20,000 (₹15,000 principal + ₹5,000 interest):

📌 **Journal Entry:**

Loan A/c Dr. ₹15,000

Interest Expense A/c Dr. ₹5,000

To Bank A/c ₹20,000

📌 **Example:** A company takes a **₹8,00,000 loan** and repays it in **48 EMIs of ₹18,500 each**. The company records each EMI payment in **Tally** to track interest expenses.

📌 **Exercise:** Record **loan receipt and EMI payments** for a **₹3,00,000 loan** in Tally.

CHAPTER 5: LOAN ANALYSIS USING RATIO ANALYSIS

5.1 Debt-to-Equity Ratio

Measures the **financial leverage** of a business.

➞ **Formula:**

$$\text{Debt-to-Equity Ratio} = \frac{Total\ Liabilities}{Shareholder's\ Equity}$$

📌 **Example:** If a business has **₹10 lakh in loans** and **₹5 lakh in equity**, the ratio is:

$$\frac{10,00,000}{5,00,000} = 2:1$$

(A **higher ratio** indicates more debt, which may be risky.)

📌 **Exercise:** A company has **₹7,00,000 debt** and **₹3,00,000 equity**. Calculate its **Debt-to-Equity Ratio**.

Conclusion

Understanding **Loan Transactions, Interest & EMI Calculations** helps businesses:

✅ **Manage loan repayments efficiently**.

✅ **Record financial transactions correctly in Tally**.

✅ **Analyze financial risks using ratio analysis**.

📌 **Final Exercise:**

1. Calculate **EMI** for a **₹12,00,000 loan at 9% for 6 years**.
2. Record **loan transactions & EMI payments** in Tally.
3. Analyze a company's **Debt-to-Equity Ratio** based on given data.

ASSIGNMENT: DEVELOP A BUSINESS BUDGET PLAN IN TALLY

Solution Guide: Developing a Business Budget Plan in Tally

This guide provides a **step-by-step method** to develop a **Business Budget Plan in Tally**, ensuring proper financial planning and control.

📝 Part 1: Understanding Business Budgeting in Tally

Step 1: Define Business Budget Objectives

Before setting up a budget in Tally, identify key financial goals:

✅ **Revenue Goals** – Expected sales income.
✅ **Expense Planning** – Controlling costs.
✅ **Profit Targets** – Setting net profit goals.
✅ **Cash Flow Management** – Ensuring sufficient liquidity.

📌 **Example:** A business expects **₹50 lakhs in annual revenue** and aims to limit **expenses to ₹35 lakhs**, ensuring a **net profit of ₹15 lakhs**.

📌 **Exercise:** Outline a **basic budget plan** for a retail store, considering **rent, salaries, inventory, and marketing costs**.

📝 Part 2: Setting Up a Business Budget in Tally

Step 2: Enable Budgeting in Tally

- **Open Tally & Select Company**
  - Launch **Tally Prime**.
  - Select the business **for which the budget is being prepared**.
- **Enable Budgeting Feature**

- Navigate to **Gateway of Tally > F11: Features > Accounting Features**.
- Set **"Maintain Budgets & Controls"** to **Yes**.
- Press **Ctrl + A** to save changes.

📌 **Example:** A manufacturing company enables **budgeting** in Tally to **track production costs, inventory purchases, and expected revenue**.

📌 **Exercise:** Enable **Budgeting & Controls** in Tally for a **sample company** and note the settings.

📝 Part 3: Creating a Business Budget in Tally

Step 3: Create a New Budget

🔹 **Go to Budget Creation**

- Navigate to **Gateway of Tally > Accounts Info > Budgets > Create**.
- Enter **Budget Name** (e.g., "Annual Business Budget 2024").
- Select **Period** (e.g., **01-Apr-2024 to 31-Mar-2025**).
- Choose **Type: Primary Budget or Specific Ledger Budget**.

Step 4: Set Budget for Revenue & Expenses

🔹 **Assign Budget to Income & Expenses**

- Select **Sales Account** → Set expected revenue (e.g., ₹50,00,000).
- Select **Expenses (Rent, Salaries, Marketing, etc.)** → Allocate budget limits.

- Choose **Profit Target** (e.g., ₹15,00,000).

🔹 **Apply Budget Controls**

- Enable **Warnings or Restrictions** to avoid overspending.
- Save the budget settings (**Ctrl + A**).

📌 **Example:** A business plans **₹10,00,000 for marketing, ₹20,00,000 for inventory, and ₹5,00,000 for salaries**, ensuring expenses remain within budget.

📌 **Exercise:** Create a **quarterly budget** for a **restaurant business,** including expected sales and expenses.

📝 Part 4: Generating Budget Reports & Variance Analysis in Tally

Step 5: View Budget Report in Tally

🔹 **Navigate to Budget Report**

- Go to **Gateway of Tally > Display More Reports > Budgets & Variance**.
- Select the **budget created** (e.g., "Annual Business Budget 2024").
- Compare **Budgeted vs. Actual Expenses & Revenue**.

🔹 **Analyze Budget Variance**

- Identify **over-budget expenses**.
- Adjust future spending based on actual results.

📌 **Example:** A company **budgeted ₹5 lakhs for marketing**, but actual spending was **₹6 lakhs**, leading to a **variance of ₹1 lakh (20%) overspending**.

📌 **Exercise:** Generate a **budget variance report** for a company and identify **which expenses exceeded the planned budget**.

🔍 Conclusion

By following these **step-by-step** guides, businesses can efficiently:

✅ **Set up budgets in Tally for revenue and expenses**.

✅ **Monitor actual spending vs. budgeted values**.

✅ **Ensure financial control and profit optimization**.

📌 Final Exercise:

1. Create an **Annual Budget Plan** for a **manufacturing company** in Tally.
2. Generate a **Budget & Variance Report** and analyze **which areas need improvement**.
3. Adjust the budget based on **actual financial performance**.
