

Advertising	3,200	
Traveller's wage & Commission	6,300	11,800
Cost of Sales		1,52,800
(+) Profit (B.F.)		57,200
Balance Figure		2,10,000
Sales		

- (ii) Budget: A budget is a financial plan for a defined period of time, usually a year. It may also include planned sales volumes & revenues, resource quantities, costs & expenses, assets, liabilities & cash flows. Companies, govt., families & other orgs use it to express strategic plans of activities or events in measurable terms.
- A budget is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposal for how to meet them. It may include a budget surplus, providing money for use at a future time, or a deficit in which expenses exceed income (Overdraft will be required).
- Following types of budgets are ^{commonly} used by business —
- (i) Operating Budget - Is a forecast & analysis of projected income & expenses over the course of a specified time period. To create an accurate picture, operating budgets must account for factors such as Sales, Production, Labour costs, Materials costs, O/H, Mfg. costs & Admin. expenses. Operating budgets are genlly created on weekly, Monthly, or Yearly basis. A Mgr might compare these reports month after month to see if the Co. is overspending on supplies. It helps to ensure/verify Co.'s operational health.....
- (ii) Capital Budget - Is the planning process used to determine whether an org's L.T. investments such as new machinery, replacement of machinery, new plants, new products and research & development projects are worth the funding of cash through the firm's capitalisation structure (debt, equity or retained earnings). It is the process of allocating resources for major capital or investment expenditures. One of the primary goals of capital budgeting investments is to increase the value of the firm to the shareholders. (Avg income, Eco income, Cap. Maint. inc.) Many formal methods are used in capital budgeting, including the techniques such as — Avg. rate of Return; Avg. a/c return; Payback period; Net Present Value; Profitability Index;

Internal Rate of Return; Modified IRR; Equivalent Annual Cost; Real option valuation

Cash Budget - Estimates amount of cash received & the amount of cash payment and balance of cash during a specific budgeted period. It is based on forecast of cash or estimate of cash showing what funds will be available at what time and whether that fund will be sufficient to meet the requirement. It can be prepared with the help of past information / experience i.e. mgt. can forecast the future with the info. / experience of past. Cash is very important for the business operation.

It can help the Co. to determine whether it is maintaining the cash wisely. Cash flow budgets considers factors such as accounts payable & accounts receivable to assess whether a Co. has ample cash on hand to continue operating, the extent to which it is using its cash productively, and its likelihood of generating cash in near future eg, -----

Master Budget - It is an aggregate of Co.'s individual budgets designed to present a complete picture of its financial activity & health. It combines factors like sales, operating expenses, assets & incoming streams to allow Cos. to establish goals & evaluate their overall performance, as well as that of individual cost centers within the orgn. Master budgets are often used in larger Cos. to keep all individual mgt. aligned.

Static budget - Is a fixed budget that remains unaltered regardless of changes in the volume of activity (as such sales volume or revenue).

Flexible budget - Budget that adjusts or flexes for changes in the volume of activity. It is more sophisticated & useful than static budget.

Numericals

CASH BUDGET : Ex: From the following data forecast the cash position at the end of April, May and June 2015.

Month, 2015	SALES (Rs.)	Purchase (Rs.)	WAGES (Rs.)	SALES EXPENSES (Rs.)
February	1,00,000	90,000	10,500	2,500
March	1,10,000	1,00,000	11,000	2,600
April	60,000	1,10,000	7,000	2,000
May	1,20,000	1,15,000	10,500	3,000
June	80,000	90,000	8,500	2,200