BACHELOR OF COMPUTER APPLICATIONS

SEMESTER 4

DCA2204

PRINCIPLES OF FINANCIAL ACCOUNTING AND MANAGEMENT

Unit 14

Budgetary Control

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1. INTRODUCTION

Every Organisation makes plans. Some plans are more formal than other and some organisations plan more formally than other but all make same attempt to consider the risk and opportunities which lie ahead and how to confront them. In most businesses this process is formalised at least in short-term, with considerable effort put into preparing annual budgets and monitoring performance against those budgets. In this Unit we shall study more about budgets.

1.1 Learning Objectives:

After studying this chapter, you should be able to:

- *Differentiate between Forecast and Budgeting*
- *Understand different types of budgets*
- *Prepare Flexible budgets*
- *Know the merits and demerits of budgetary control*

2. MEANING OF BUDGET

A budget is prepared to have effective utilisation of funds and for the realisation of objectives as efficiently as possible.

Definition of Budget:

A financial or quantitative statement prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective.

A budget is **an estimation of revenue and expenses over a specified future period of time** and is usually compiled and re-evaluated on a periodic basis. Budgets can be made for a person, a group of people, a business, a government, or just about anything else that makes and spends money.

Forecast v. Budget

A forecast is a predication of the future state of world, in connection with those aspects of world which are relevant to and likely to effect on future activities. *Forecast is calculation of probable events.* Both forecasting and planning involve recognition of the relevant factors in a given situation and understanding of what each factor has contributed to it and how each is likely to affect the future. Any organised business cannot avoid anticipating or calculating future conditions and trends for the framing of its future policy and decision. Forecast is concerned with *'probable events'* and the budgeting relates to *'planned events'.* Budgeting should be preceded by forecasting, but forecasts may be made for purpose other than budgeting.

A forecast is an assessment of probable future events. Budget is an operating and financial plan to a business enterprise. At planning stage, it is necessary to prepare forecast of probable course of action for the business in future. Budget is a sort of commitment or a target which the management seems to attain on the basis of the forecasts made. Forecasts are made regarding sales, production, cost and financial requirements at the business. A forecast denotes some degree of flexibility while a budget denotes a definite target. The following points of difference can be noted between forecast and budget as shown in Table 14.1.

Table 14.1

Forecast	*Budget*
1. Forecast is merely an estimate of what is likely to happen. It is a statement of problem events which are likely to happen under anticipated conditions during a specified period of time.	1. Budget shows the policy and programme to be followed in a period under planned conditions.
2. Forecasts, being statements of future events, do not connote any sense of control.	2. A budget is a tool of control since it represents actions which can be shaped according to will so that it can be suited to the conditions which may or may not happen.
3. Forecasting is a preliminary step for budgeting. It ends with the forecast of likely events.	3. It begins when forecasting ends. Forecasts are converted into budgets.
4. Forecasts are wider in scope and it can be made in those spheres also where budgets cannot interfere.	4. Budgets have limited scope. It can be made of phenomenon capable of being expressed quantitatively.

Essential of Budget:

1) A budget is prepared prior to a defined period of time.
2) It is prepared for the definite future period.
3) The policy to be followed to attain the given objectives must be laid before the budget is prepared.
4) The budget is a monetary or quantitative statement of that policy.

Thus, a budget fixes a target in terms of rupees or quantities against which the actual performance is measured.

Self-Assessment Questions - 1

1. __________ is calculation of probable events.
2. Budget denotes a definite target. State True/False

3. MEANING, ESSENTIALS AND OBJECTIVES OF BUDGETARY CONTROL

Definition of Budgetary Control:

The establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a firm basis for its revision.

Or in simple words, budgetary control is implementing budgets and making managers responsible for implementing it.

Essentials of budgetary control:

1) Establishment of budgets for each function and section of the organisation.
2) Continuous comparison of the actual performance with that of the budget so as to know the variations from budget and placing the responsibility of executives for failure to achieve the desires results as given in the budget.
3) Taking suitable remedial action to achieve the desired objective if there is a variation of the actual performance from the budgeted performance.
4) Revision of budgets in the light of changed circumstances.

Objectives of Budgetary Control

1) Planning:

A budget is a plan of the policy to be pursued during the defined period of time to attain a given objective. The budgetary control will force management of all levels to plan in time all the activities to be done during the future periods.

2) Co-ordination:

The budgetary control coordinates the various activities of the firm and secures Co-operation of all concerned so that the common objective of the firm may be successfully achieved.

3) Control:

Control consists of the action necessary to ensure that the performance of the organisation conforms to the plans and objectives. Budgetary control makes control possible by continuous comparison of actual performance with that of the budget so as to report the variations from the budget to the management for corrective action.

4. STEPS IN BUDGETARY CONTROL

1) **Organisation Chart:**

Before successful installation of a budgetary control, it is necessary that the concern should have a definite plan of organisation. The chief executive who is the head of the budgetary control system delegates his authority to the budget officer who sees that all budgets are co-ordinated.

2) **Budget Centre:**

A budget centre is a section of the organisation of an undertaking defined for the purpose of budgetary control. Budget Centres will disclose the sections of the organisation where planned performance is not achieved.

3) **Budget Manual:**

It is a document which sets out, the responsibilities of the persons and the forms and records required for budgetary control. It is a written document which guides the executives in preparing various budgets.

4) **Budget Controller or Budget Officer:**

Chief executive appoints some persons known as budget controller who are given the specific duty of administering the budget. The budget officer should see that the actual performance is met in line with the budgeted performance and should issue timely warning when the actual performance differs substantially.

5) **Budget Committee:**

The Budget Controller is assisted by the Budget Committee. The Budget Committee will include all the department heads. These heads will prepare the budgets and submit to the committee for approval. It is the duty of the Budget Committee to make necessary adjustments in the budgets, co-ordinate all the budgets and finally approve the budgets.

6) Budget Period:

It is the period for which a budget is prepared and employed. The budget period will depend upon the following two factors:

i) The type of business and
ii) The control aspect.

In the case of seasonal industries, the budget period should be short one and should cover one season. . So that the actual results may be compared with the budget each week end or month. Long term budgets should be supplemented by short-term budgets to make budgetary control successful.

7) Key factor:

Key factor is defined as the factor which limits production. It is also known as 'principal budget factor,' limiting factor' and 'governing factor'. The key factor will differ from concern to concern and might be sales, plant capacity, raw materials, labour etc. The budget relating to the key factor should be prepared first and the other budgets should be prepared based as the principal budget factor. The key factors are temporary in nature and may be overcome by suitable management actions. Generally, sales is the key factor in any business. This can be overcome by taking proper sales promotion steps

5. TYPES OF BUDGETS

Budgets can be classified based on by the following factors:

1) The coverage they encompass.
2) The capacity to which they are related.
3) The conditions on which they are based.
4) The periods which they cover.

The classification based on the above factors is shown in Fig. 14.1.

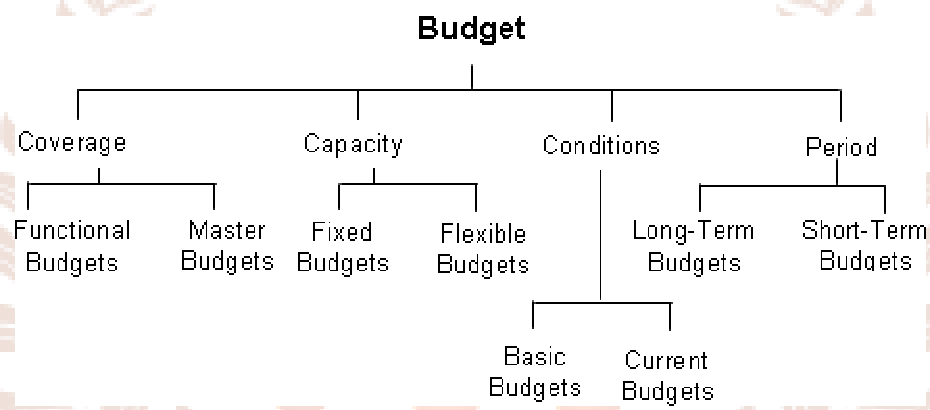

Figure 14.1

1. On basis of coverage

Functional Budget:

It is a budget which relates to any of the functions of an undertaking for e.g. Sales, Purchase, Research and development, etc. The following are functional budgets which are commonly used.

1) Sales Budget including Selling & Distribution Cost Budget.
2) Production Budget consisting of Materials Budget, Labour Budget, Plant utilisation Budget etc.
3) Purchase Budget.
4) Capital Expenditure Budget.
5) Administrative Cost Budget.
6) Research and Development Cost Budget.

7) Cash Budget.

Master Budget:

It is a consolidated summary of the various functional budgets. It is defined as a summary budget incorporating its components functional budgets and which is finally approved, adopted and employed. It is prepared by the Budget Committee by co-ordinating the various functional budgets. It is used to prepare the Budgeted Profit and Loss Account and a Budgeted Balance Sheet.

2. On the basis of capacity

Fixed Budget:

It is a budget prepared for a given level of activity. It does not take into consideration any change in expenditure arising out of changes in the level of activity. These budgets are useful when the actual level of activity corresponds to budgeted level of activity.

Flexible Budget:

It is a budget designed to change in accordance with the level of activity actually attained. It gives different budgeted costs for different levels of activity. It is prepared after classifying the expenses into fixed, variable and semi-variable, because the usefulness such a budget depends upon the accuracy with which the expenses are classified. Such a budget is desirable in the following cases:

1) Where the level of activity varies from period to period, due to the seasonal nature of the industry or the variation in demand.
2) Where the business is a new one and it is difficult to anticipate the demand.
3) Where an industry is suffering from the shortage of a factor of production such as materials, labour, plant capacity etc. the level of activity depends upon the availability of such a factor of production.

3) **On the basis of conditions :**

Basic Budget:

It is a budget which is prepared for use, unaltered over a long period of time. This does not take into consideration the current conditions.

Current Budget:

It is a budget which is related to the current conditions and is prepared for use over a short period of time. This is more useful than the basic budget.

4) **On the basis of period of time :**

Long Term Budget:

It is budget prepared for period longer than a year. These budgets help in business forecasting and forward planning. The examples of long-term budgets are Capital Expenditure Budget and Research and Development budget.

Short Term Budget:

A budget which is prepared for periods less than a year and is very useful to lower levels of management for control purposes. Such budgets are prepared for these activities for whom the trend is difficult to foresee over longer periods. Cash Budgets and Materials budgets are examples of long-term budgets.

Some important functional budgets:

1) **Sales Budget:**

Sales budget is a plan for coordinating the marketing operations, both in financial and quantitative or physical terms. It is an important budget because the ultimate object of all efforts is towards sales. The forecasted quantities of sales and values of sales are presented in this budget. Sales is one of the limiting factors. Hence, this budget should be prepared accurately because preparation of all other budgets is based on sales budget. It is prepared by the sales manager. The important factors to be taken into consideration in its preparation are present sales, trends, salesmen's assessments, estimated production capacity, availability of raw materials, trade prospects, competition, financial resources, orders on hand fluctuations, etc.

2) **Production Budgets:**

There is a close relationship between the sales and the production budget. It is plan of forecast of the output of the business divided into various products according to periods. There should be a relation between production and sales budget; whatever is produced should be sold. As such, it should be prepared keeping in view the sales budget, and as such it cannot be prepared independently. Production budget can be prepared both in quantitative or physical terms and financial terms, i.e., in rupees. The works manager is responsible for its preparation. There are a number of factors to be considered in the preparation of a production budget. These are production planning, time gaps, capacity of plant, forecast of closing finished stock, seasonal fluctuations, an availability of the raw materials, etc.

3) **Cost of production budget:**

The quantity produced or the number of units converted into in monetary terms is called as cost of production budget. The number of units or quantity to be produced is to be determined, without which cost of production budget cannot be prepared. This budget estimates the cost of output planned. This budget reflects the amount to be spent on producing a particular quantity as stated in the production budget. A cost of production budget is composed of the cost of materials, labour and overheads.

4) **Materials budget:**

Materials budget is a detailed statement of the forecast of the quantity of raw materials required for production. In its preparation, it classifies both the direct and indirect material requirements. This material budget mainly deals with determining the quantity of raw materials required for production. It should include the forecast of different types of raw materials, and should be compatible to budgeted output, time lag, seasonal nature, fluctuations in prices, market conditions, changing tastes and habits of the consumers, government policy, etc. While preparing it, one should ensure and, enable the fixing of the minimum stock level and their re-order level.

5) **Direct labour budget:**

Direct labour budget is concerned with determining the requirements of direct labour for production. It has two forms like labour requirements budget and labour cost budget. The labour is to be recruited as per the requirements of production department. It should reflect the labour requirements in different departments classifying labour into various trades. Basically, labour is divided into direct and indirect labour and accordingly two types of budgets can be prepared. Direct labour is involved in manufacturing and indirect labour is involved and form part of the works overheads. In preparing the labour budget, piece rate, time rate, overtime, outworkers etc. should be considered.

6) **Cash budget:**

Cash budget is defined as an analysis of flow of cash in a business over a future, short or long period. It is a forecast of expected cash inflow and outflowIt is a plan of estimate cash receipts and disbursements during a given period of time. Cash is the nucleus or lifeblood in the working capital management. It reflects the estimated cash receipts on account of cash sales, credit collections and miscellaneous receipts. The other part of the budget shows the estimated disbursements on account of cash purchases, sums payable to creditors, wages, tax payment, dividends, etc. This budget takes into account the flow of every item of cash, either receipts or payments. A minimum cash balance is maintained always to meet the contingencies. The Chief finance officer or accountant is responsible for the preparation of the cash budget. If the cash budget is deficit, necessary arrangements may be made with a bank to procure the required money to meet the current cash transactions.

7) **Capital Expenditure Budget:**

This budget gives an estimate of the amount of capital that may be needed for acquiring the fixed assets required for fulfilling production requirement as in the production budget. Separate budgets may be prepared for different items of fixed assets such as plant and machinery budget, building budget etc. The capital expenditure budget takes into account the following factors.

a] Replacement cost of existing assets.

b] Purchase of additional assets to meet a proposed increase in production due to increase in demand.

c] Purchase of additional assets to start new lines of production.

d] Installation of an improved type of machinery so as to reduce cost of production.

8) Research and Development Budget:

A good business concern should conduct research to fund new products and to find new ways so as to make improvement in quality of old products. For this purpose, some amount of revenue is kept aside every year and a research and development budget is prepared taking into consideration the research projects in hand and the new projects to be taken up. Thus, this budget provides an estimate of the expenditure to be incurred on research during the budget period.

6. PREPARATION OF FLEXIBLE BUDGETS

Illustration1

1. **Flexible Budget:**

The expenses budget for production of ***10,000 units*** in a factory are furnished below:

	Per units (Rs.)
Materials	70
Labour	25
Variable overheads	20
Fixed overheads (Rs. 1,00,000)	10
Variable Expenses (Direct)	5
Selling Expenses (10% fixed)	13
Distribution Expenses (20% fixed)	7
Administration Expenses (Rs. 50000)	5
	155

Prepare a budget for production of 6000 and 8000 units. Administrative Expenses are fixed for all levels of production.

Cost	6000 units		8000 units		10000 units	
	Per unit	Total	Per unit	Total	Per unit	Total
Materials	70.	4,20,000	70	5,60,000	70	7,00,000
Labour	25	1,50,000	25	2,00,000	25	2,50,000
Direct Exp.	5	30,000	5	40,000	5	50,000
Prime Cost	100	6,00,000	100	8,00,000	100	10,00,000
Factory overheads						
Fixed	16.67	1,00,000	12.50	1,00,000	10	1,00,000
Variable	20	1,20,000	20	1,60,000	20	2,00,000
Factory Cost	136.67	8,20,000	132.50	10,60,000	130	13,00,000
Administrative	8.33	50,000	6.25	50,000	5	50,000
Expenses	145.00	8,70,000	138.75	11,10,000	135	13,50,000
Selling & Distribution Expenses						
Selling	13.87	83,200	13.32	1,06,600	13	1,30,000
Distribution	7.93	47,600	7.35	58,800	7	70,000
Total Cost	166.80	10,00,800	159.35	12,75,400	155	15,50,000

Working Note:

1) Materials, Labour, Direct Expenses and Variable overheads are variable costs. Therefore, the cost per unit will be the same at all levels of production.
2) Fixed overheads (both factory and administration) will be the constant for all levels of production.
3) Selling and Distribution expenses are partly fixed and partly variable. The variable part per unit will be the same for all levels whereas the fixed part in total will be constant for all levels.

For e.g. At 10,000 units, selling expenses per unit is 13 out of which 10% is fixed.

∴The fixed part is $\frac{10}{100} \times 13 = 1.3$ per unit

Total fixed cost = 1.3 x 10,000 = Rs. 13000

Variable Cost per unit = $\frac{90}{100} \times 13 =$ Rs. 11.70

∴The variable for 10000 units = 11.70 x 10,000

= 1, 17,000

Total selling expenses for 10,000 units

= 1, 17,000 + 13,000 = 1, 30,000

Similarly at 6000 level, the selling expenses will be as follows.

Variable = 6,000 x 11.7	=	70,200
Fixed		13,000
Total		83,000

In similar procedure distribution expenses are also calculated

Illustration 2

Production Budget

From the following data, prepare a production budget for the ABC Co. Ltd. Stocks for the budgeted period (units).

Product	As on 1st Jan.	As on 30th June
A	8000	10000
B	9000	8000
C	12000	14000

Requirements to fulfil sales schedule

A 60000 units

B 50000 units

C 80000 units

Normal loss in production

A — 4%

B — 2%

C — 6%

Solution:

Production Budget

(For six months ending 30th June)

Products (in units)

	A	B	C
Budgeted Sales	60000	50000	80000
+ Desired Cl. stock	10000	8000	14000
	70000	58000	94000
(-) Opening Stock	8000	9000	12000
	62000	49000	82000
+ Normal loss	2600	1000	5000
Units to be produced	64600	50000	87000

Working Note:

Calculation of Normal loss

A $\frac{62000}{96} \times 100$ = 64600 (Approx)

∴ Loss is 64600 – 62,000 = 2600

B $\frac{49000}{98} \times 100 = 50000$

∴ Loss is 50000 – 49000 = 1000 units

C $\frac{82000}{94} \times 100 = 87000$ (Approx.)

∴ Loss = 87000 – 82000 = 5000

7. MERITS AND DEMERITS OF BUDGETARY CONTROL

Merits:

- Budgetary control establishes a basis for internal audit by regularly evaluating departmental results.
- By reporting information which has not gone according to plan, it economises on managerial time and maximises efficiency. This is called '*Management by exception*' reporting.
- Scarce resources would be allocated in an optimal way, thus controlling expenditure.
- It forces management to plan ahead so that long-term goals are achieved.
- Communication is increased throughout the firm and coordination is improved.
- An effective budgetary control system will allow people to participate in the setting of budgets, and thereby have a motivational impact on the work force. Individual and corporate goal are aligned.
- Areas of efficiency and inefficiency are identified. Variance analysis will prompt remedial action where necessary.
- The budget provides a yardstick against which the performance of the firm can be evaluated. It is better to compare actual with budget rather than with the past, since the latter may no longer be suitable for current and expected conditions.
- People are made responsible for items of cost and revenue, i.e., areas of responsibility are clearly delineated.

Demerits:

- Budgets are perceived by the work force as pressure devices imposed by top management. This can have an adverse effect on labour relations.
- It can be difficult to motivate an apathetic work force.
- The pressure in the budgeting system may result in inaccurate record keeping.
- Manager may over-estimate costs in order that they will not be held responsible in the future for over spending. The difference between the minimum necessary costs and the costs built into the budget is called 'slack.'

- Departmental conflict arises because of competition for resource allocation. Departments blame each other if targets are not achieved.
- Uncertainties can occur in the system, e.g., uncertainly over demand, inflation, technological change, competition, weather etc.
- It may be difficult to align individual and corporate goal. Individual goals often may contradict the firm's goals.
- It is important to match responsibilities with control, otherwise a manager will be demotivated. Costs can only be controlled by a manager if they occur within a certain time span and can be influenced by that manager. A problem arises when a cost can be influenced by more than one person.
- Managers are often accused of wasting expenditure when they either:
  a. demand a grater budget allowance than is really needed, or
  b. unnecessary spend in order to fully utilise their allowance through fear of future cutbacks. Zero base budgeting can overcome this problem.
- Sub-optimal decisions may arise when a manager tries to enhance his short-run performance in a way which is detrimental to the organisation as a whole, e.g., delaying expenditure on urgently needed repairs.
- They are based on assumed conditions (e.g., rates of interest) and relationship (e.g., product-wise held constant) that are not varied to reflect the actual circumstances that come about.
- They make allowance for tasks to be performed only in relation to volume rather than on time.
- They compare current costs with estimates based only on historical analysis.
- Their short-term horizon limits the perspective, so short-term results may be sought at the expenses of longer-term stability or success.
- They have a built-in bias that tends to perpetuate inefficiencies. For example, next year's budget is determined by increasing last year's by 15 per cent, irrespective of the efficiency factor in the last year.
- As with all types of budgets the game of 'beating the system' may take more energy than is being devoted to running the business.

- The fragile internal logic of static budget will be destroyed if top management reacts to draft budgets by requiring changes to be made to particular items which are then not reflected through the whole budget.

Self-Assessment Questions - 2

3. The Budget Controller is assisted by the team called ________ .
4. ________ is otherwise called as limiting factor.
5. ___________ budget prepared for a longer period of time.
6. Scarce resources would be allocated in an optimal way, thus controlling expenditure. State True/False

8. SUMMARY

- Budget is a plan of management's intentions of attaining specified objectives.
- Though Budgeting and forecasting sounds to be similar there is difference between them. Forecast is concerned with 'probable events and the budgeting relates to 'planned events'.
- The main objectives of budgetary control are Planning, Co-ordination and control. Based upon the capacity, budget can be fixed or flexible. Fixed budget is a budget prepared for a given level of activity. Flexible budget is a budget designed to change in accordance with the level of activity actually attained.
- Based upon the functions in an organisation the budget can be classified as
  1) Sales Budget including Selling & Distribution Cost Budget.
  2) Production Budget consisting of Materials Budget, Labour Budget, Plant utilization Budget etc.
  3) Purchase Budget.
  4) Capital Expenditure Budget.
  5) Administrative Cost Budget.
  6) Cash Budget.
  7) Research and Development Cost Budget

9. TERMINAL QUESTIONS

1) Distinguish between 'Forecast 'and 'Budget'.
2) Distinguish between 'Flexible Budget' and 'Fixed Budget'.
3) "Every coin has two sides". Explain this statement with respect to 'Budgeting'.
4) Explain various functional budgets.
5) Mr. Johnson who is C.A. believes that 'Production Budget' can be prepared only after 'Sales Budget'. Is Mr. Johnson right in his assumption ? If 'Yes', Why?
6) Mr. Ambani assumes that for production of 10,000 units the total material cost will be 1,00,00,000. But because he is not sure about the demand of the product, he believes that the production could be 7,000 units or 9,000 units. Please help Mr. Ambani in calculating the total material cost under following situations:
   a) If the production is 7,000 units
   b) If the production is 9,000 units
   c) Calculate the material cost per unit
7) For the following particulars prepare a flexible budget for the three months ending 30th September 2006 showing the estimated sales, costs and profits for 60%, 80% and 100% activity. Assume that all items are produced are sold.

Fixed Expenses:	Rs.
Management Salaries	4, 20,000
Rent and Rates	2, 80,000
Depreciation on Machinery	3, 50,000
Sundry Office Cost	4, 45,000
	14, 95,000
Semi-variable expenses at 50% activity	
	Rs.
Plant Maintenance	1, 25,000
Indirect Labour	4, 95,000
Salesmen's Salaries & Expenses	1, 45,000
Sundry expenses	1, 30,000
	8, 95,000
Variable expenses at 50% activity:	
	Rs.
Materials	12, 00,000
Labour	12, 80,000
Salesmen's Commission	1, 90,000
	26, 70,000

Semi-variable expenses remain constant between 40% and 70% activity, increase by 10% of the above figures between 70% and 80% activity and increase by 15% of the above figures between 80% and 100% activity. Fixed expenses remain constant whatever may be the level of activity. Sales at 60% activity are Rs. 51, 00,000, at 80% activity are Rs. 68, 00,000, at 100% activity are Rs. 85, 00,000.

10. ANSWERS

Self-Assessment Questions

1. Forecast
2. True
3. Budget Committee
4. Key factor
5. Long term budget
6. True

Terminal Questions

1. Ref. 2
2. Ref. 5
3. Ref. 7
4. Ref. 5
5. Ref. 5
6. Ans: a) 70, 00.000 b) 90, 00,000 c) 1,000
7. Solution:

Flexible Budget For 3 Months ended 30th Sept. 2006

Hint:

Here everything is mentioned w.r.t. 50% activity so it's better to calculate all cost at 100% activity and then start calculation 60%, 80%, 100% capacities.

For example

At 50% activity material costs is 12,00,000 so at 100% it will be 24,00,000 So now at 60% it will be 60% of 24, 00,000 which is 14, 40,000. Similarly, at

80% it will be 80% of 24, 00,000 which is 19, 20,000. In similar way all costs are to be calculated.

Particulars	**60%**	**80%**	**100%**
Variable costs:			
Materials	14,40,000	19,20,000	24,00,000
Labour	15,36,000	20,48,000	25,60,000
Salesmen's Comm.	2,28,000	3,04,000	3,80,000
	32,04,000	42,72,000	53,40,000
Semi-variable costs:			
Plant Maintenance	1,25,000	137,500	1,43,750
Indirect Labour	4,95,000	5,44,500	5,69,250
Salesmen's salary	1,45,000	1,59,500	1,66,750
Sundry Exp.	1,30,000	1,43,000	1,49,500
	8,95,000	9,84,500	10,29,250
Fixed Costs:			
Management salaries	4,20,000	4,20,000	4,20,000
Rent and Rates	2,80,000	2,80,000	2,80,000
Depreciation	3,50,000	3,50,000	3,50,000
Sundry office cost	4,45,000	4,45,000	4,45,000
	14,95,000	14,95,000	14,95,000
Total Cost	55,94,000	67,51,500	78,64,250
Sales	51,00,000	68,00,000	85,00,000
Profit / Loss	(4,94,000)	48,500	6,35,750

Working Notes:

Fixed Expenses are constant for all levels of activity.

Variable expenses change proportionately to the level of activity.

Semi-variable expenses are the same for levels between 40%-70%. At 80% the semi-variable expenses increase by 10%.

For e.g., Plant Maintenance at 60%	=	1, 25,000
+ 10% (at 80% level)		12,500
At 70% level	=	1, 37,500

Similarly, they increase by 15% at 100% level.

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Financial Management by Prasanna Chandra

Financial Management by Shashi Gupta and Neeti Gupta

Financial Management by Rustagi