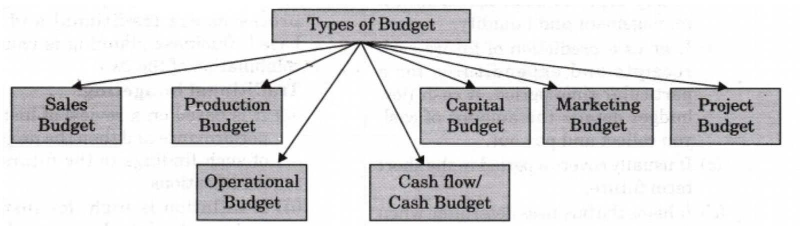
D. LONG ANSWER TYPE QUESTIONS
Question 1. What is a budgeting process?
Answer:

1. Budgeting is a collective process in which operating units prepare their plans in conformity with corporate goals published by top management.
2. Each unit plan is intended to contribute to the achievement of the corporate goals.
3. Unit managers prepare projections of sales, operating costs, overhead costs, and capital requirements. They calculate operating profits and returns on the investment they intend to use.
   The budget itself is the projection of these values for the next calendar or fiscal year.
   In this process, each unit presents its plans and budget to a reviewing upper management panel and may, thereafter, make whatever changes result from instructions or negotiations with the higher level. Texts presenting, documenting, and defending the rationales underlying the numbers are usually part of the planning document. Approved budgets then become the road¬map for operations in the coming year. Ideally monthly or quarterly budget reviews track performance against the budget. As part of such reviews, changes to the budget may be approved. At the end of year managers are judged by their performance against the budget.

Question 2. There is a Budget to suit every business and its need. Elucidate.
Answer:



1. Sales Budget:
   (a) This budget shows what finished products can be sold in what quantities and at what prices.(an estimate of future sales)
   (b) It may be prepared product wise, region wise, customer wise and period wise.
   (c) It is often broken down into both units and currency.
2. Production Budget: It is always based on sales budget. It is generally prepared into two parts:
   (a) It shows the estimates in volume or quantities. It estimates the number of units that must be manufactured to meet the sales goals.
   (b) It shows production cost. The production budget also estimates
   the various costs involved with manufacturing those units, including labour and material,

3. Capital Budget:
   (a) It is generally prepared to estimate the total capital required for acquiring the fixed assets for fulfilling the production demand of an organisation.
   (b) Long term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing. Capital required for developing research and development should be totally different from the work of manufacturing unit.
   (c) The capital budget helps you figure out how much money you need to put in place of new equipment or procedures to launch new products or increase production or services.
   (d) This budget estimates the value of capital purchases you need for your business to grow and increase revenues.
4. Cash Flow/Cash Budget/Financial Budget:
   (a) It is one of the important budgets because success of any business totally depends upon the cash flow management and liquidity.
   (b) It gives a prediction of future cash receipts and expenditures for a particular time period. A cash flow budget details the amount of cash you collect and pay out.
   (c) It usually covers a period in the short term future.
   (d) It helps the business determine when income will be sufficient to cover expenses and when the company will need to seek outside financing.
   (e) It makes a provision for minimum cash balance which will be available at all times.
   (f) The minimum cash balance should be equal to one month's operating expenses including contingencies.
   (g) A positive cash flow is essential to grow your business.
5. Marketing Budget: It is an estimate of the funds needed for promotion, advertising, and public relations in order to market the product or service.
6. Project Budget:
   (a) It estimates of the costs associated with a particular company project. These costs include labour, materials, and other related expenses.
   (b) The project budget is often broken down into specific tasks, with task budgets assigned to each. A cost estimate is used to establish a project budget.
7. Operational Budget:
   (a) An operational budget is the most common type of budget used.
   (b) It forecasts and tries to closely predict yearly revenue and expenses for a business.
   (c) It is a short term budget.
   (d) This budget can be updated with actual figures on a monthly basis and then you can revise your figures for the year, if needed.

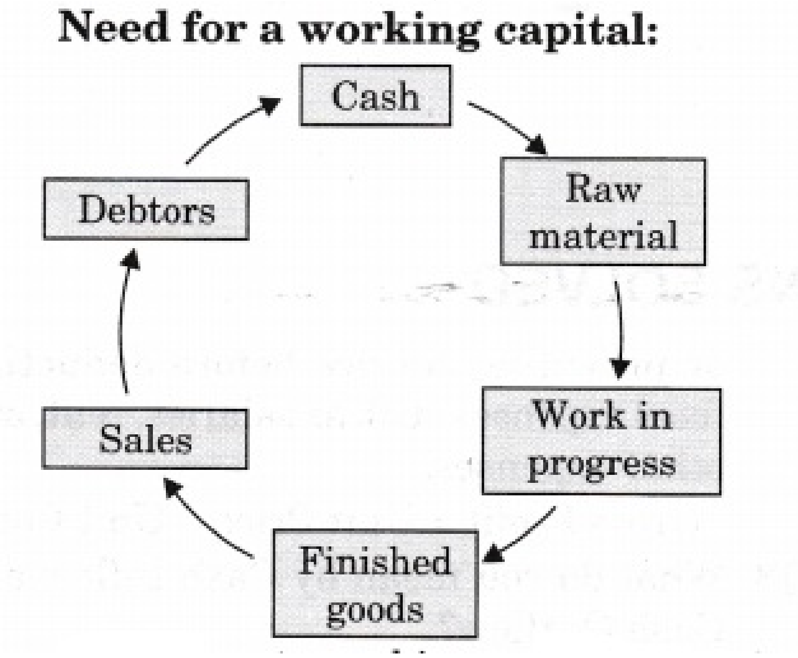
Question 3. Explain the two dominant forms of budgeting process.
Ans: The two dominant forms of budgeting processes are traditional and zero- based. Business planning is usually a combination of the two.
Traditional budgeting:

1. It is based on a review of historical performance and then the projection of such findings to the future with modifications.
2. If inflation is high, for instance, cost trends of the last several years are projected forward but with adjustments both for inflation and for projected growth or decline in business activity.
3. Historical sales patterns, using established trends in sales growth, are projected; new sales from planned new product introductions are then added.

Zero-based budgeting:

1. It is the creation of a completely new budget from the ground up—as if no history existed.
2. When using this method, the operation must justify and document every item of expenditure and income anew.

Question 4. What is working capital? What is the need for a working capital?
Answer: Money needed to fund the normal, day- to-day operations of a business is known as the working capital.



1. Adequate working capital is required for the smooth running of any business.
2. It is required by a business for meeting day to day business expenses to complete a business cycle or the operating cycle.

The working capital of a business keeps on circulating or changing since the money circulates in various forms of assets in a continued manner.

The above diagram explains that:

1. In a business concern operating cycle begins with outflow of cash towards the purchase of raw materials, payment of labour, power, fuel and other expenses converting the raw materials into work in progress and converting them into finished goods. Sale of finished good for cash or credit.
2. If on credit then conversion of account receivables into cash.
3. This operating cycle indicates that funds once tied up in the form of raw materials are later converted into the form of finished goods.
4. In a manufacturing concern there is a time gap between the first step of purchasing of raw-materials to last step of selling of goods and realizing cash. This time duration is called operating cycle. It is also called the “changing” or circulating capital because money circulates in various forms of assets in a continued manner.

E. HIGHER ORDER THINKING SKILLS (HOTS)
Question 1. Calculate working capital of Raja & Co. has the following items in its Balance sheet: Stock — 50,000; Trade creditors - 32,000; Debtors - 75000; Cash -1,00000; Dividend payable - 50,000; Tax - 44,000; Short term loan - 61,000; Short term investments - 76,000. Calculate gross and net working capital.
Answer:

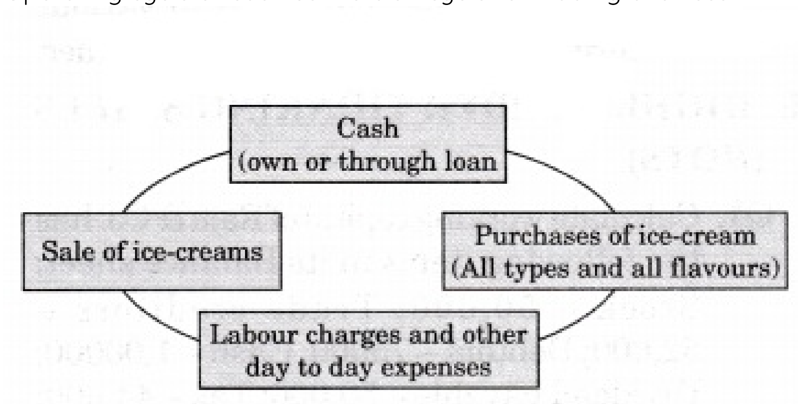
1. Total Current Assets = Debtors + Stock + Cash + Short term investment Total Current Assets = (Rs 75000 + Rs 50,000 + Rs 1,00000 + Rs 76,000) Total Current Assets = Rs 3,01,000
2. Total Current Liabilities = Sundry Creditors + Dividend Payable + Tax + Short Term loan)
   Total Current Liabilities = (Rs 32,000 + Rs 50,000 + Rs 44,000 + Rs 61,000) = Rs 1,87,000
3. Gross Working Capital = Total Current Assets
   Gross Working Capital = Total Current Assets = Rs 3,01,000
4. Net Working Capital = Total Current
   Assets - Total Current Liabilities
   Net Working Assets = Rs 3,01,000 - Rs 1,87,000 = Rs 1,14,000
   (a) Gross Working Capital = Rs 3,01,000
   (b) Net Working Assets = Rs 1,14,000

Question 2. Ramu is buying and selling ice-creamExplain his working capital requirement.
Answer: Ramu is a trading entrepreneur.

1. Trading entrepreneur is one who undertake trading activities, whether domestic or overseas.
2. They deal in buying and selling of manufactured goods.
3. Before launching the business they identify the potential market for his product in order to stimulate the demand.

They believe in creating a demand in the market to market survey and push many ideas ahead of others in the form of demonstration to promote

Operating cycle or cash conversion cycle for trading business:



1. Money needed to fund the normal, day to day operations of a business is known as the Working Capital.
2. For trading, where there is no manufacturing (or conversion), the operating cycle will be shorter.
3. Ramu needs less amount of working capital as ice-cream is a perishable goods and can't keep for a long time period.
4. Therefore, Ramu has to purchase and sale of goods through cash only.

MORE QUESTIONS SOLVED

I. VERY SHORT ANSWER TYPE QUESTIONS
Question 1. What do you mean by Unit of Sales?
Answer: Unit of sales can be defined as the measure of what products are sold.

Question 2. What do you mean by Gross Profit?
Answer: Excess of Unit Price over Unit Cost is known as the Unit Gross Profit or Unit Gross Margin. This represents the business's profit from selling a product or providing service before deducting fixed expenses such as salaries, rent, and other expenses.
Gross Profit = Unit Price — Unit Cost

Question 3. What do you mean by Cash Inflow and Cash Outflow?
Answer: All receipts of money is known as cash in flow 5 like rent received and loan received, and payments made in money is known as cash outflow. Ex: Insurance premium and Transprtation charges.

Question 4. Give one difference between Income Statement and Cash Flow Statement.
Answer:

Income Statement	Cash Flow Statement
Statement that enables us to determine the profit over a period of time is known as Profit and Loss Statement or Income Statement.	The historical cash flow statement shows how cash has flowed in and out of a business. Or, It describes the cash inflow and outflow that has occurred in the past.

Question 5. What do you understand by Unit Cost/ Variable Cost/Cost of Goods sold?
Answer: Cost of unit can be defined as the cost incurred by a company to produce, store and sell one unit of sale of a particular product or service.

Question 6. Give some examples of Variable Cost/ Unit Cost.
Answer: The Unit Cost refers to the variable cost like raw-materials, packing material, sales commission, freight, etc.

Question 7. How do we calculate the unit cost in the case of multi product or service situations? Explain with the help of an example.
Answer: Grocery store is a trading business. One buys and sells. So, the cost at which the items are purchased is known as Unit Cost (just as its MRP at which you are selling). Therefore, at the end of the day, it is possible to know the purchase price of all the items and quantities that were sold. Let us suppose that it works out to Rs 1,70,000. There are 100 units of Sale. So the unit cost is Rs 1,700.

Question 8. What is MRP?
Answer: MRP is a short form of Maximum Retail Price. It is a price at which shopkeeper sells the goods to customers.

Question 9. What are "Carrying Costs"?
Answer: It is defined as the cost of holding and handling materials inside or outside the stores. It is important to examine the inventory level and to maintain optimum balance of inventory.

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