

*Biyani's Think Tank*

Concept based notes

# Business Budgeting

(B.Com. Part-III)

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## Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

This book covers basic concepts related to the microbial understandings about diversity, structure, economic aspects, bacterial and viral reproduction etc.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

**Author**

# Syllabus

## Business Budgeting

### SECTION-A

**Business Budgets and Budgeting** : Meaning, Nature, Objectives, Advantages and Limitations of Budgets and Budgeting, Budget Terminology. Preparation of Budgets, Budget Co-ordination. Essentials of an Effective Budgeting.

**Types of Budgets** : Fixed and Flexible Budget, Financial Budget, Master Budget, Sales Budget, Production Budget, Cost of Production Budget, Direct Material Budget, Direct Labour Budget and Overhead Budget. Performance Budgeting. Zero Base Budgeting.

**Business Forecasting** : Meaning, Theories, Techniques of Business Forecasting. Essentials of Business Forecasting.

### SECTION-B

**Cash Budgeting** : Meaning, Importance and Forms of Cash Budget. Preparation of Cash Budget. Methods of (preparing) Cash Budget.

**Budgetary Control** : Meaning, Characteristics, Objects and Benefits of Budgetary Control. Budgetary Control Vs. Standard Costing, Sales Variances, Material Variances, Labour Variances.

**Project Planning and Feasibility Study** : Types of Projects, Appraisal of Projects, Profitability Estimates of Projects, Feasibility : Economic, Financial and Technical.

### SECTION-C

**Product and Production Decisions** : Meaning, Product, Product Decision Areas : Use of Alternative Production Facilities. Determination of profitable level of production, Utilisation of full production capacity. Starting a new product in place of old. Determination of product mix on the basis of key factor.

**Cost of Capital** : Computation of Cost of Debt Fund, Preference Share Capital, Equity Share Capital, Retained Earnings and Weighted Average Cost of Capital.

**Analysis of Risk and Uncertainty** : Introduction, Description of basic risk concept, Risk evaluation approaches.

**Value Analysis** : Meaning of Value Analysis, Objectives of Value Analysis: A Fresh look.

**N.B.** : The question paper will be evenly divided between theoretical and numerical questions.

# Chapter-1

## Budget

### Q.1. What is Business Budget

**Ans.** It is a detailed plan of various business activities based on future forecasts and are to be carried on in a budget period for the attainment of certain predetermined business objective. Business budget are prepared to eliminate the future risks of business and to ensure successful completion of various tasks.

### Q.2. What are characteristics of budget.

- Ans.**
- (a) Definite future period of time.
  - (b) Detailed Plan
  - (c) Attainment of Pre-determined objectives of Business
  - (d) Co-operate
  - (e) In monetary units
  - (f) Integral part of Business
  - (g) It is standard
  - (h) It is conclusion of Budgeting
  - (i) Instrument of achieving Business objective.
  - (j) Written Document

### Q.3. What is Nature of Budget

- Ans.**
- (a) It is continuous managerial Process.
  - (b) It is a tool of management.
  - (c) It is a technique.
  - (d) It is a standard.
  - (e) It is a specific proforma.
  - (f) It is an integrated plan.
  - (g) Financial Budget are more important.
  - (h) It is a means of communication.

### Q.4. What are the objective of Budget

- Ans.**
- (1) Maximize the Business profit
  - (2) Optimal Utilization of Resources
  - (3) Help to fix the responsibilities

- (4) Increase Busi efficiency
- (5) Co-operate in managerial skills.
- (6) To protect the Busi from future risks & uncertainty.
- (7) To use as a source of Busi communication.
- (8) To use as a standard for measuring performance.
- (9) To establish co-ordination between various deptt.
- (10) To increase the competitive strength of a Busi.

**Q.5. What are the limitation of Budget.**

- Ans.**
- (1) Personal Bias
  - (2) Success depend on the efficiency of employee.
  - (3) It is instrument, not an end.
  - (4) Create hurdle in place of guidance.
  - (5) Freedom of work restricted by it.
  - (6) Govt. policy affect it.

**Q.6. What is Budgeting**

**Ans.** Budgeting is a managerial process. It is a technique to formulate a budget and to implement and evaluate it.

**Characteristics:**

- (1) Continuous managerial process.
- (2) Related to definite period of future time.
- (3) Based on certain objectives.
- (4) Future forecasting
- (5) Standard for measuring performance.
- (6) Technique for formulating plan.
- (7) Means to prepare Budget.
- (8) Success of Budget depend on it.

**Objectives:** (1) Helpful in planning.

- (2) Helpful in co-ordination.
- (3) Helpful in controlling.
- (4) Helpful in communication.
- (5) Helpful in performance evaluation.
- (6) Helpful in comparison.

- (7) Helpful in fixing standard.
- (8) Helpful in cost control.
- (9) Helpful in removing complexities.
- (10) Helpful in raising competitive strength.

**Q.7. Explain the process of Budgeting.**

**Ans.** Budgeting process having following steps –

**(1) Formulation of Busi Policies:**

Busi policy for various activities such as sale policy, purchase policy, production policy, cash & inventory policy are determined in advance.

**(2) Preparation of Budget Forecasts:**

All the heads of different deptt prepare budget estimate for certain period of time, e.g. Sales forecast, purchase forecast, etc.

**(3) Comparison of alternative, co-ordination and Review:**

Budget committee studied different Department Budget & alternative analyse it & suggest the deptt head to best one & they can suggest the change in budget by their own.

**(4) Formation of master budget, final approval & budget execution**

After the co-ordination all deptt. budget prepare the master budget and send to approval of Board of directors. After approval sent it to different deptt for execution.

**Q.8. What are the limitation and advantages of Budget.**

**Ans.**

**Advantages**

1. Helpful in managerial function.
2. Profitability analysis.
3. Cost analysis.
4. Helpful in comparison.
5. Participation
6. Determination of functions.
7. Determination of responsibilities.
8. Regular accounting.
9. Optimum use of Busi resources
10. Motivation

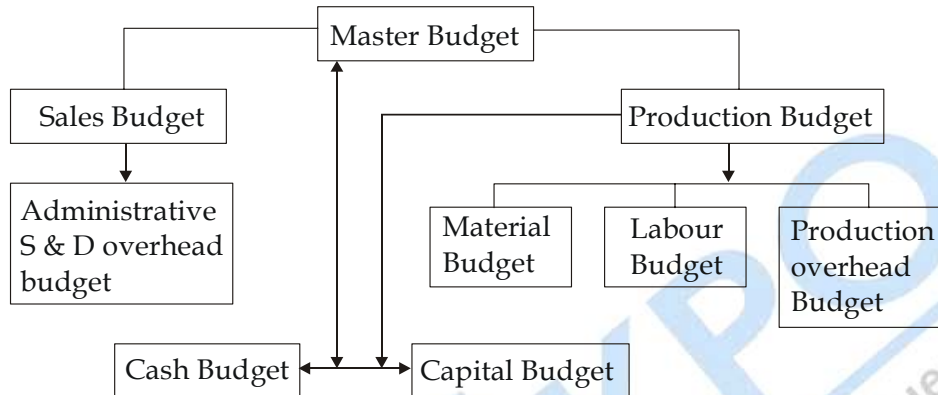
**Limitation**

1. Budget are only estimates.
2. Lack of full knowledge.
3. Personal Bias
4. Ineffective
5. Non-cooperation
6. Highly Burden
7. Budget Decision taken by Higher authority.
8. Only tool for management.

11. Accountability & efficiency
12. Development of co-operative spirits.

**Q.9. Budget Co-ordination as a tool of mgmt.**

**Ans.**



**Q.10. How can we make the Budget effective.**

**Ans.** When we process following qualities we can be called Budget is effective:-

1. Fixed period of time.
2. Sound forecasts.
3. Planned accounting system.
4. Planned cost accounting system.
5. Efficient organisation.
6. Authority & responsibility.
7. Well-defined business policies.
8. Budget organisation/committee
9. Flexible
10. Economical
11. Formulation of master budget.

**Q.11. Explain facts regarding Budget Committee.**

**Ans.** Usually one member is appointed as Budget officer and others as member of the budget committee. Budget officer has his own authority and responsibilities. All other member work under his supervision and leadership.

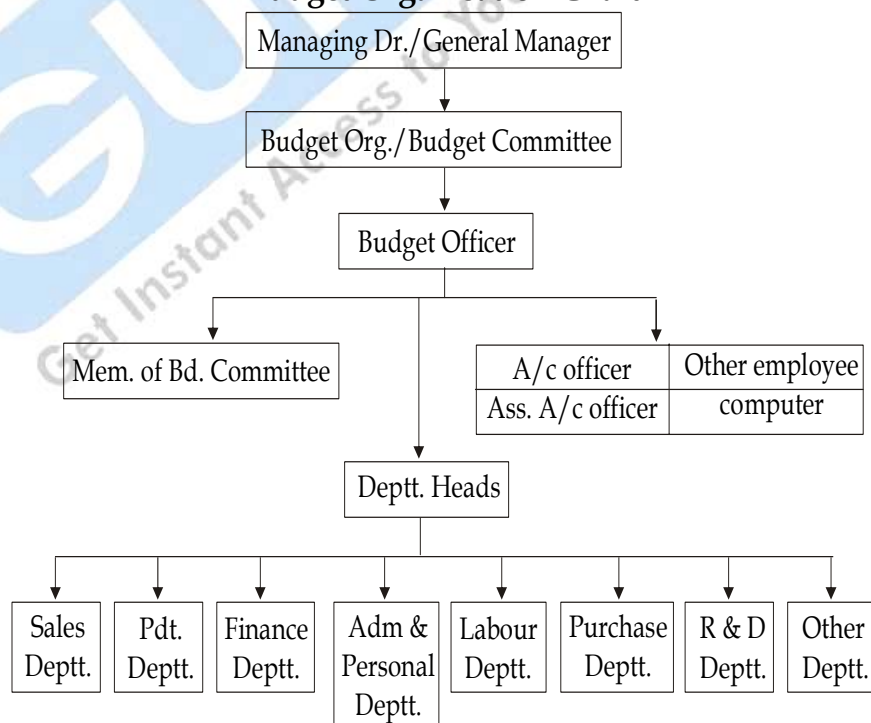
## Function of Budget Officer

1. Get guidance & advice from top management.
2. Studies policies formulated by top management.
3. Decision on the basis of past present and future business condition.
4. Issue instruction to various department regarding budget.
5. Prepares master budget.
6. Taking approval of Budget.
7. Esta. Co-ordinator between various department
8. Prepare performance report and interpretation.

## Rights of Budget officers

1. Right to get information
2. Co-operation form various heads.
3. Fixing responsibility of member of Budget committee.
4. To get necessary finance for budget.
5. Get salary for his services.

## Budget Organisation Chart



### Q.12. What is Budget Manual

**Ans.** It is a book which contain all those rules, sub-rules, procedures, principles, which are essential for Budget implementation and appraisal.

Following things are incorporated in budget –

1. Techniques, method, process of budget formulation.
2. Objective of budgeting
3. Name of Important Budget to be prepared.
4. Formate of various Budget.
5. Budget schedules
6. Bd. Org. for formulation of a budget
7. Right & Responsibility of Bd. Committee
8. Pay & allowances of Bd. Officer
9. Information about co-operation

#### Advantages

1. Provide proper guidance.
2. Describe function & responsibilities.
3. Help in Bd. Formation
4. Co-ord. the budget committee activities.
5. Useful in Budget formation implementation & appraisal.

#### Disadvantages

1. Restrict the freedom of members.
2. Create hurdle in the spot decision.
3. Undue delay in Bd. Formulation.
4. Hurdle in utilization of specialised officers.

### Q.13. Importance of Budget Period.

**Ans.** Bd. Period is the period for which bd is prepared. It varies from Busi to Busi and from firm to firm. Usually bd period is one year but for proper implementation these are divided in quarterly or monthly bd. Long term bd are prepared for five or more yr.

Generally it depend on –

- (1) Nature of the Busi
- (2) Size of Busi
- (3) Time taken in production
- (4) Budget of competitors.
- (5) Internal & external factor

- (6) Busi Risks
- (7) Availability of money
- (8) Govt. policies

**Q.14. What is Budget Format ?**

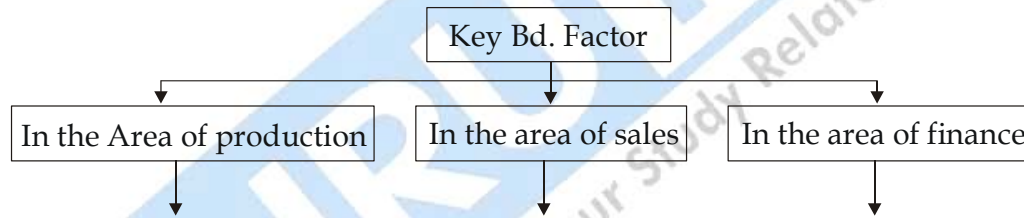
**Ans.** Budget format in which important point of Bd should be arranged in a systematic manner so that bd can be prepared easily and quickly.

**Advantage:**

- 1. Preparation of Bd become easy.
- 2. Time saving
- 3. Useful at all level of mgmt.

**Q.15. Importance of Key Budget Factors?**

**Ans.** Key Bd. Factor are those factor which are fixed in advance for business. They can be stable or instable.



- |                        |                             |                        |
|------------------------|-----------------------------|------------------------|
| 1. Raw material supply | 1. Shortage of Demand       | 1. Money & capital mkt |
| 2. Specific Techn.     | 2. Lack of efficient seller | 2. Investors           |
| 3. Govt. policy        | 3. Advtg.                   | 3. ROI                 |
| 4. Plant size          | 4. Consumer specific        |                        |
| 5. Labour supply       | 5. Price cycle              |                        |
|                        | 6. Pd. Quality              |                        |
|                        | 7. Packaging                |                        |
|                        | 8. Competition              |                        |

Effect of these factor can be minimised by

- (1) Improving managerial efficiency
- (2) Selecting efficient seller
- (3) Effective advertising

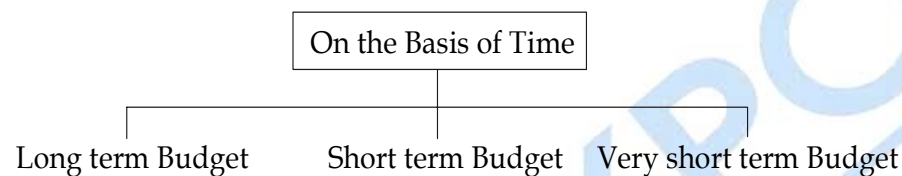
- (4) Specific packaging
- (5) Improve quality of the product, etc.

**Q.16. What is Responsibility centre.**

**Ans.** Responsibility centre is a deptt. or sub-deptt of an org. who work under the mgmt to the controlling point whose responsible to the higher mgmt. For all operational activities. eg. mktg, Finance, pdt,

**Q.17. Explain the time Based Budgets**

**Ans.**



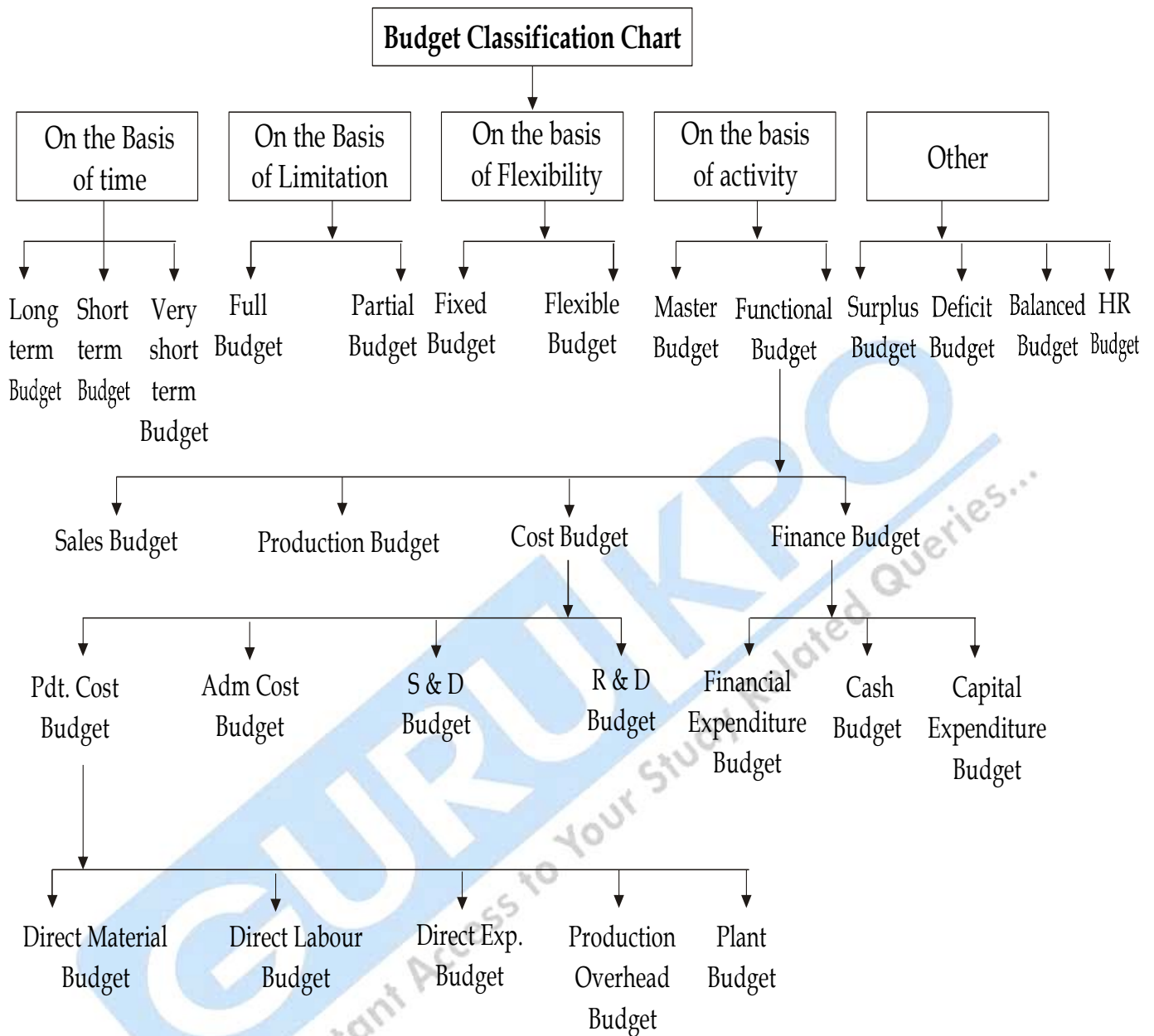
**(1) Long term Budget:** Generally it is prepared for more than 5 yr. It is related to fixed investment like extension, development, re-org & research for the enlargement of economic activities, who make enables the mgmt to arrange the required capital well in time reducing cost of capital and to maintain the speed of operation activities in busi without any obstacles.

**(2) Short Term Budget:** It is generally prepared for the period of 1 yr. Main obj of this bd is to maintain the existing speed of operating cycle continuously and regularly. The capital required for a yr. is known as working capital, find the sources of it and arrange them.

**(3) Very short term (Current Bd):** It is prepared for very short period, like monthly, quarterly or half-yearly object it to achieve the goal of short-term Bd. It is detail list of work related to production & supply which are to be carried out during the year. It is useful only for big busi houses not for small busi.

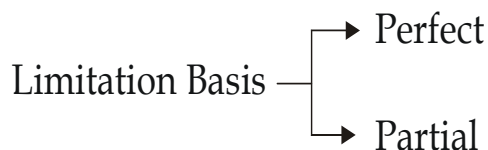
**Q.18. What is the classification of type of Budget?**

**Ans.**



**Q.19. Explain the Budgets on the Basis of limitation?**

**Ans.**

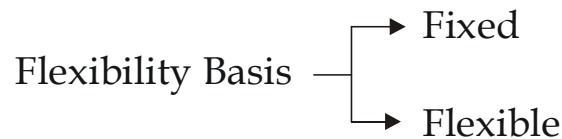


**(1) Perfect (Full) Budget : (Master Budget) :** It includes all the activities of the Busi related to the production, marketing, dist., & other economic activities. It is summary of all theeconomic activities of the Busi.

**(2) Partial Budget :** When the budget is prepared only for a part/area/deptt of the busi. It is prepared at the time when the capacity of some deptt. of the busi is not definite or certain.

**Q.20. Explain the Budgets on the basis of Flexibility.**

**Ans.**



**(1) Fixed Bd (Static):** In this objective and target are fixed. It is feasible to prepare only when estimation regarding production and sales can be made accurately and there is perfect certainty in the busi activities and envt. In following condition this is suitable:-

- (1) Busi is not seasonal.
- (2) No impact of external factors.
- (3) Product demand is certain.
- (4) No Need of special labour or material.

**Merits**

1. Simple to prepare
2. Less time consuming
3. Advantage of economy.
4. Easy to control
5. Easy to follow-up
6. Easy to forecast.

**Demerits**

1. Other factors do not constant.
2. Impact of other on production
3. Very difficult to change.
4. Accurate estimate not possible.
5. Not feasible.

**(2) Flexible Budget:** It is prepared for various capacity. It shows the volume of sales, cost and profit or loss which is possible at various level of production capacity. It also adjust the change which is essential due to change in busi condition international external factors or busi circumstances main object to know the impact on profit at actual level of production capacity.

**Characteristics:**

1. Adjustable
2. Prepared in advance for any level.
3. Dynamic
4. Unfavourable impact can be control
5. Cost classified in fixed, semi-variable and variable.

6. Related to particular period.

**Change on the following ground**

1. Seasonal nature
2. Instability in input mkt.
3. Adjustable acc to habit interest of consumers.
4. Demonstration effect.
5. Competition with substitute
6. Govt. policies varies
7. Natural circumstances varies
8. Limitation of infra-structure.

Generally flexible Bd more useful coz of all dynamic factor can be adjustable.

**Advantages**

1. Easy calculation.
2. Easy adjustment of change.
3. Knowledge about the impact of cost.
4. Comparable
5. Cost control
6. Determine production level.

**Disadvantages**

1. Possible only when proper A/cg. System.
2. Requires standard costing system.
3. Depend on cost experts.
4. Depend on perfect knowledge of envt.
5. Very expensive & labour oriented.

**Steps of Formulation of Flexible Budget**

1. Specified the time.
2. Classify all the cost into fixed, variable & semi-variable.
3. Determine type of standard.
4. Analyse cost Behaviour pattern in past.
5. Select the proper method.
6. Build-up the appropriate Bd.

**Q.21. Classify all type of cost? How**

**Ans. (1) Fixed cost (Period Cost) (Capacity Cost) (Supplementary Cost)**

It includes all cost that are not affected by the increase or decrease in the volume of production. It is constant up to installed capacity but avg. fixed cost per unit decrease acc to increase in the volume of production.

**(2) Variable Cost (Marginal Cost)**

It include those cost which are affected by the volume of pdt means increase or decrease acc to output. Total variable cost up to the volume of output but avg. Variable cost is constant per unit.

**(3) Semi-variable cost (Semi-Fixed Cost)**

It remain constant upto a certain level of pdt and change after the specified level with uneven proportion. It include both fixed & variable components.

**Method of Segregation of semi variable cost**

- (A) Comparison by level of activity method.
- (B) Degrees of variability method.
- (C) Method of least square.
- (D) Graphic method

Most commonly used method is as follows -

- (A) Comparison by level of activity method - (Range method)

Steps as follows-

- (I) Per unit V.C. = Change in variable cost/Changes in output level
- (II) Total V.C. = Per Unit V.C. x Total pdt units
- (III) Total F.C. = Total semi variable cost - Total variable cost

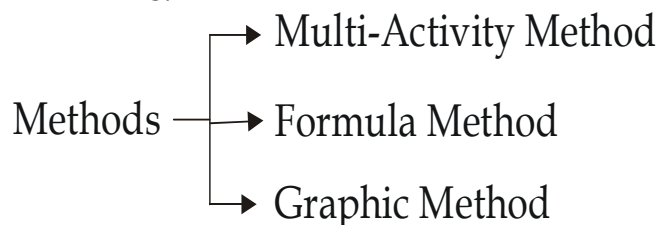
e.g.

Output	500	600	700	940	740
Semi V. Cost	2000	2200	2400	2880	2480

- (I)  $2880 - 2000 / 940 - 500 = 2 \text{ Rs}$
- (II)  $T.V.C. = 2 \times 500 = 1000$
- (III)  $T.F.V. = 2000 - 1000 = 1000$

**Q.22. Explain the different method of preparing flexible Budget?**

Ans.



**(1) Multi Activity Method:**

- (A) Cost divided into fixed, variable, semi-variable.
- (B) Each production activity level shown in separate column.
- (c) Enable the mgmt to select the level of activity that provide max. profit.

**Flexible Budget**

(Normal Level of Activity : 80%)

Particulars	Period ending.....		
	50%	Capacity 80%	100%
<b>1. Prime Cost :</b>			
Direct Material	.....	.....	.....
Direct Labour	.....	.....	.....
Direct Expenses (if any)	.....	.....	.....
<b>2. Variable Overheads :</b>			
Maintenance and Repairs	.....	.....	.....
Indirect Labour	.....	.....	.....
Indirect Material	.....	.....	.....
<b>3. Marginal Cost (1+2)</b>	.....	.....	.....
<b>4. Sales</b>	.....	.....	.....
<b>5. Contribution (4-3)</b>	.....	.....	.....
<b>6. Fixed Cost :</b>			
Production	.....	.....	.....
Administration	.....	.....	.....
Selling & Distribution	.....	.....	.....
<b>7. Profit/Loss (5-6)</b>	.....	.....	.....

**(2) Formula Method:** (Bd. Cost allowance method)

- (I) Fixed and variable cost at normal level is used.
- (II) Determine per unit v.c. by dividing v.c. by output volume.

(III) Multiply any level of output quantity with per unit v.c. & adding fixed cost to find total cost.

Profit margin can also find when sales is given.

**(3) Graphic Method:**

(I) Fixed, Variable, Total cost at OY-axis pdt unit at OX-axis.

(II) Classify the pdt cost

(III) Plot all cost on graph.

**Q.23. Difference Fixed & Flexible Budget**

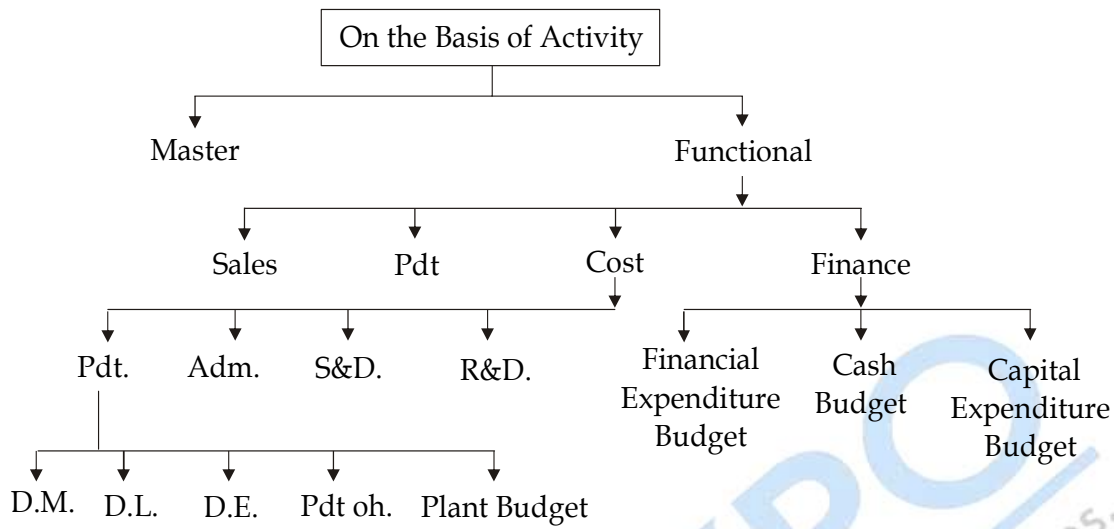
**Ans.**

**Fixed Budget**

**Flexible Budget**

- |   |  |
|---|--|
| <p><b>1. Nature :</b> This budget remains unchanged and is the same without considering any change in business activity.</p> <p><b>2. Assumption :</b> This budget is prepared with the assumption that level of activity will remain unchanged.</p> <p><b>3. Cost Classification :</b> Costs are not classified according to their nature or behaviour.</p> <p><b>4. Comparison :</b> When actual output is different, the comparison between actual and budgeted performance is not possible.</p> <p><b>5. Forecast :</b> Forecast of the results is difficult.</p> <p><b>6. Determination of Costs :</b> It is difficult to determine the cost when actual level of performance differs from budgeted level.</p> | <p>This budget is changed in the light of changed level of activity.</p> <p>This budget is prepared at various levels of activity.</p> <p>Costs are classified according to their nature i.e. fixed, variable and semi-variable.</p> <p>Comparison is made as actual figures are compared with the same budgeted level.</p> <p>Forecast is easy as budget is prepared for various levels of activity.</p> <p>Costs at various levels of activity can easily be determined.</p> |
|---|--|

**Q.24. Explain the activity Based Budget -**  
**Ans.**



### (1) Master Budget

**Acc to C.I.M.A.** - The Master Budget is the summary budget incorporating its component functional budget.

**Acc to Traditional Approach:** P&L A/c and Balance Sheet both are known as Master Budget that is prepared on the basis of financial statement of the previous year and future estimates.

**Acc to Modern Approach:** Master Budget all the functional bd in a summarised form. It include all the key figure related to org.

#### Advantages

1. Detailed knowledge about the Busi
2. Co-ordination among the deptt.
3. Ease to execute & control.
4. Basis of valuation.
5. Co-operation of all deptt.
6. Contivulation in pdt process
7. Knowledge about Busi profit
8. Helpful in Decision making
9. Helpful for mgmt.
10. Useful for large org.

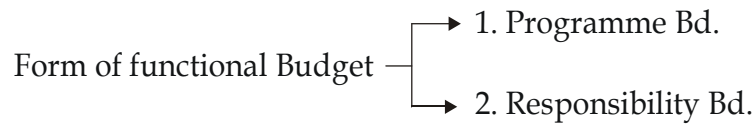
#### Disadvantages

1. Not useful for small org.
2. More expensive & time consuming.
3. Impartiality is not possible.
4. Very technical & difficult.
5. Responsible for unnecessary delay.



**Q.25. Explain Functional Budget and its different type?**

**Ans. Acc to ICMA:** It is a budget of income or expenditure appropriate to, or the responsibility of a particular function.



**(1) Programme Budget:** This programme focuses much on functional activities to completed by a deptt in bd period.

**(2) Responsibility Bd:** It is a complete scheme of duties and responsibilities regarding the bd formulation, execution and controls of each person of the concerned deptt.

**Advantage of Functional Bd.**

1. Helpful in preparing master budget.
2. Determine deptt activities.
3. Determine of duties of each person decide.
4. Helpful in measuring performance & efficiency.

**Disadvantages of Functional Bd.**

1. Not possible to get complete knowledge about Busi.
2. Not useful for small busi.
3. Expensive, time & labour consuming.

**Q.26. Give brief explanation about Sales Budget**

**Ans. Sales Budget-** Bd which shows the volume and value of sales of a busi during the bd period.

**Sales Budget include following factors:-**

- (1) Data, information, trend of past years sales.
- (2) Production capacity
- (3) Forecast target for salesmen.
- (4) Determine order of G&S produced.
- (5) Study regarding busi cycle.
- (6) Study seasonal change and its impact.
- (7) Available factor of pdt & infrastructure.
- (8) Pdt tech.
- (9) Study about mkt.
- (10) Mktg process
- (11) Impact of different govt & International policies.
- (12) Area of sales

## Objectives

- (1) Earn desired profit.
- (2) Increase in mkt share
- (3) Sell whole lot of pdt.
- (4) Satisfying customers.
- (5) Generate sufficient revenue.
- (6) Conduct mkt research.

## Process of preparing sales Budget

- (1) Sales Forecasts of grass root level.
- (2) Study of sales forecasts by branch manager.
- (3) Preparation of consolidated sales forecast by the regional manager.
- (4) Preparation of sales budget by the sales manager.
- (5) Final approval.

### Merit

1. Permanent & regular source of revenue.
2. Basis of master budget.
3. Basis for other functional bd.
4. Enlargement of possible mkt.
5. Desired profit can be earned.
6. Basis of managerial success.
7. Optimum use of resources.
8. Safety from busi fluctuation.

### Demerit

1. Difficult to prepare
2. Expensive
3. Labourious
4. Time-consuming
5. Impact of external & internal factor can't ascertained.
6. Not useful for small busi
7. All other functional Bd depend on it so if it not properly prepare it affects adversely.

## Sales Budget-Proforma

Year ending :

Area :

	<i>Budget</i>		<i>Actual Budget</i>		<i>Expected Budget</i>	
	<i>Current Year</i>		<i>Current Year</i>		<i>Next Year</i>	
Analysis	Units	Price Value	Units	Price Value	Units	Price Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.

### By Outlets :

1. Wholesalers

2. Jobbers
  3. Retailers
  4. Salesmen
- Total Sales

**By Products :**

1. Cinthol
  2. Marvell
  3. Hamam
  4. Palmolive
  5. Lux
- Total Sales

**By Customers :**

1. Men
  2. Women
  3. Boys
  4. Girls
  5. Children
- Total Sales

**Q.27. What is Production Budget**

**Ans.** In this mgmt decide, when and how much units of various pd are to be produced to fulfill the requirement of sales budget means it present no. of units of various products are to be produced periodically.

**Objectives:**

- (1) Fulfill requirement of sales Budget.
- (2) Reduce pdt cost
- (3) Optimum utilization of factors.
- (4) Maintain continuity of pdt process.
- (5) Timely & regularly supply.
- (6) Maintain sufficient stock.

**Merits**

- (1) Basis of master budget
- (2) Basis of other functional budget

- (3) Timely supply of order possible.
- (4) Decrease in production cost.
- (5) Optimum utilization of factors.
- (6) Earning of desired profit.

Formula = Sales + Closing stock – Opening Stock

**Q.28. Explain different Cost Budgets.**

**Ans.** Production budget is a physical budget only where as cost budget is a financial budget regarding production.

It specifies all the costs which are to be incurred from the pdt to sales processes during the budget period.

**Production Cost Budget :**

It specifies all those costs to be incurred on the production of various pd during the bd period.

Firstly cost is classified according to various costs than mgmt prepare a separate budget in detail and then summarised in pdt. budget.

Hence it is a summary of material budget, labour budget, factory overhead Bd and plant budget. In large companies, it may also be further classified acc to pd, process and time.

<b>Particular</b>	<b>Amt.</b>
Direct Material	xxx
Direct Labour	xxx
Direct Expenses	xxx
Factory Expenses – Variable Fixed	xxx
	xxx

**(A) Direct Material Budget (Material Budget)**

It specifies the budgeted qualities and cost of all kinds of raw-material required for the production. It provide basis for fixing optimum level of inventory stocks, establishment of control over material usage. Indirect material is not be included in it because it is a part of factory overheads and not co-related directly with production.

It is of two type-

- (A) Material Physical Budget
- (B) Material Financial Budget

### **(I) Material Physical Budget**

It includes only the quantities of all type of materials which are essential to the production point of view during the plan period.

Formula = Required material as per volume of pdt + Cl. Stock of R.M.- Op. Stock of R.M.

### **(II) Material Financial Budget**

It specifies the expenditure incurred on the purchase of required material quantities for production during the plan period.

#### **Formula**

Cost of material required = Units of material required x Standard price of R.M. per unit

#### **Objectives:**

- (1) Determine the quantities of Raw material.
- (2) Determine cost of material
- (3) Helpful in preparing functional budget
- (4) Helpful in control over wastages.
- (5) Minimise cost of pdt.
- (6) To continue pdt process

#### **Merits**

- (1) Pre-determine require material.
- (2) Pre-determine require cost of material.
- (3) Helpful in preparing other secondary budget
- (4) Timely order for requisite.
- (5) Control on carrying cost.
- (6) Continuation in production process.
- (7) Advantage of cost min.

#### **Factor to be look after while preparing material**

- (1) Budget period
- (2) Determine nature and kind of material.
- (3) Seasonal nature of pdt and R.M.
- (4) Available material mkt and prices.
- (5) Cr. Period allowed by supplier.
- (6) Store mgmt and cl. Stock.

- (7) Nature of Business cycle.
- (8) Time-lag between order placed.

Format for material Budget :

Units of R.M. Required as per pdt Budget	x x	
Add = Desired cl stock of R.M.	x x	
Less = Available op. stock of R.M.	x x	
		mat req in units
Multiply Standard price of R.M. per unit (Rs)	x x	
		mat financial requisite

**(B) Direct Labour Budget :**

It signifies the req of various kinds of labour for budgeted pdt of desired pd and the total cost incurred on them.

After the labour requirements relating to different kind are finalised, estimated rate per hr and labour cost per unit is arrived at.

Direct Labour hr required = Labour hr required for one unit of output x Quantity of output.

Direct Labour Cost = Direct labour hr required x Std. labour rate per unit.

**Objectives**

1. Determine labour hr require.
2. Determine kind of labour hr require.
3. Determine standard labour hr rate.
4. To increase in profitability, efficiency and performance of the company minimising labour cost.

**Importance**

1. Determine labour hr.
2. Determine labour cost.
3. Cost minimisation.
4. Minimise Idle hr.
5. Determine labour trug and incentives.
6. Increase in performance of co.
7. Continue pdt process.
8. Co-ordination among various deptt.
9. Format fore Direct Labour Budget

10. Labour budget is usually prepared in the following format :

### Direct Labour Budget

Budget Centre Period.....  
Output .....Units A Standard Hours.....  
.....Units B  
.....Units C

Workers	Number	Hours	Standard Rate	Total Labour Cost
			Rs.	Rs.

#### Male :

Skilled

Semi-skilled

Unskilled

#### Female :

Skilled

Semi-skilled

Unskilled

#### Factor to be considered

- (1) No. of quality of Labour.
- (2) Labour Rate
- (3) Availability of different kind of labour
- (4) Desired labour hr.
- (5) Est total labour cost
- (6) Labour training
- (7) Labour Incentives
- (8) Govt. Labour policies.

#### (c) Direct Expenses Budget

It includes all direct expenses with pdt and change as per proportionate change in the output, e.g. carriage inward, octori, power etc.

#### (D) Production overhead Budget:

It includes those expenses which are essential for manufacturing good and in directly related with production. These expenses do not increase proportionally as per proportionate change in output. Fixed part these expenses will not vary with the change in the level of activity. Basically there are two elements of factory-

- (A) Fixed production overhead
- (B) Variable production overhead

It is essential to prepare to control over production overheads and to increase the performance of the company.

**Q.29. What is Plant Utilization Budget.**

**Ans.** It prepared for the estimation of plant capacity to meet the budgeted pdt during the plan period. If plant utilization > plant capacity mgmt think for new extra shift and machinery.

If plant utilization < plant capacity mgmt consider the plans for increase in sales.

**Factor Consider**

1. No. of machine available.
2. Plant capacity
3. Production quantity
4. Economic life of machine.
5. Available funds.

**Importance**

- (1) Detail knowledge about plant capacity.
- (2) Knowledge about unused machine.
- (3) Best utilization of plant.
- (4) Helpful in preparing product.
- (5) Timely financial arrangement.

**(I) Plant Requisition Budget**

= Per unit machine hr. required x Budgeted Production

**(II) Plant Cost Budget**

= Per unit operating cost of plant x Budgeted output

Plant utilisation budget is prepared in the format as given below :

**Plant Utilization Budget**

							Period.....
Deptt.	Machine Number	No. of Hours available	Normal lost time	Standard Capacity in hours	Output per Std. hour	Standard Quantity	
A	1	.....	.....	.....	.....	.....	
	2	.....	.....	.....	.....	.....	

	3	.....	.....	.....	.....	.....
B	4	.....	.....	.....	.....	.....
	5	.....	.....	.....	.....	.....
	6	.....	.....	.....	.....	.....
Total						

Send your requisition at  
[info@biyanicolleges.org](mailto:info@biyanicolleges.org)

