I Internal Examination-2019
Class: - B. Com. III
Subject: - Business Budgeting

Time: 1½ Hrs. **[SET – B]** **MM: 40**

Multi Choice Questions (each carrying 1 marks) **1 x 10=10**

SET B	
1	C
2	A
3	D
4	B
5	B
6	D
7	C
8	D
9	A
10	C

B. Long type question:

Q.1 "Budget is an aid to Management and not a substitute for Management." Comment.

Time and money are scarce resources to all individuals and organizations; the efficient and effective use of these resources requires planning. Planning alone, however, is insufficient. Control is also necessary to ensure that plans actually are carried out. A **budget** is a tool that managers use to plan and control the use of scarce resources. A budget is a plan showing the company's objectives and how management intends to acquire and use resources to attain those objectives.

A budget: (1) shows management's operating plans for the coming periods; (2) formalizes management's plans in quantitative terms; (3) forces all levels of management to think ahead, anticipate results, and take action to remedy possible poor results; and (4) may motivate individuals to strive to achieve stated goals.

Companies can use budget-to-actual comparisons to evaluate individual performance. For instance, the standard variable cost of producing a personal computer at IBM is a budget figure. This figure can be compared with the actual cost of producing personal computers to help evaluate the performance of the personal computer production managers and employees who produce personal computers.

The planning process that results in a formal budget provides an opportunity for various levels of management to think through and commit future plans to writing. In addition, a properly prepared budget allows management to follow the management-by-exception principle by devoting attention to results that deviate significantly from planned levels. For all these reasons, a budget must clearly reflect the expected results.

Failing to budget because of the uncertainty of the future is a poor excuse for not budgeting. In fact, the less stable the conditions, the more necessary and desirable is budgeting, although the process becomes more difficult. Obviously, stable operating conditions permit greater reliance on past experience as a basis for budgeting. Remember, however, that budgets involve more than a company's past results. Budgets also consider a company's future plans and express expected activities. As a result, budgeted performance is more useful than past performance as a basis for judging actual results.

A budget should describe management's assumptions relating to: (1) the state of the economy over the planning horizon; (2) plans for adding, deleting, or changing product lines; (3) the nature of the industry's competition; and (4) the effects of existing or possible government regulations. If these assumptions change during the budget period, management should analyze the effects of the changes and include this in an evaluation of performance based on actual results.

Budgets are quantitative plans for the future. However, they are based mainly on past experience adjusted for future expectations. Thus, accounting data related to the past play an important part in budget preparation. The accounting system and the budget are closely related. The details of the budget must agree with the company's ledger accounts. In turn, the accounts must be designed to provide the appropriate information for preparing the budget, financial statements, and interim financial reports to facilitate operational control.

Management should frequently compare accounting data with budgeted projections during the budget period and investigate any differences. Budgeting, however, is not a substitute for good management. Instead, the budget is an important tool of managerial control. Managers make decisions in budget preparation that serve as a plan of action.

The period covered by a budget varies according to the nature of the specific activity involved. Cash budgets may cover a week or a month; sales and production budgets may cover a month, a quarter, or a year; and the general operating budget may cover a quarter or a year.

Budgeting involves the coordination of financial and nonfinancial planning to satisfy organizational goals and objectives. No foolproof method exists for preparing an effective budget. However, budget makers should carefully consider the conditions that follow:

- **Top management support** All management levels must be aware of the budget's importance to the company and must know that the budget has top management's support. Top management, then, must clearly state long-range goals and broad objectives. These goals and objectives must be communicated throughout the organization. Long-range goals include the expected quality of products or services, growth rates in sales and earnings, and percentage-of-market targets. Overemphasis on the mechanics of the budgeting process should be avoided.
- **Participation in goal setting** Management uses budgets to show how it intends to acquire and use resources to achieve the company's long-range goals. Employees are more likely to strive toward organizational goals if they participate in setting them and in preparing budgets. Often, employees have significant information that could help in preparing a meaningful budget. Also, employees may be motivated to perform their

own functions within budget constraints if they are committed to achieving organizational goals.

- **Communicating results** People should be promptly and clearly informed of their progress. Effective communication implies (1) timeliness, (2) reasonable accuracy, and (3) improved understanding. Managers should effectively communicate results so employees can make any necessary adjustments in their performance.
- **Flexibility** If significant basic assumptions underlying the budget change during the year, the planned operating budget should be restated. For control purposes, after the actual level of operations is known, the actual revenues and expenses can be compared to expected performance at that level of operations.
- **Follow-up** Budget follow-up and data feedback are part of the control aspect of budgetary control. Since the budgets are dealing with projections and estimates for future operating results and financial positions, managers must continuously check their budgets and correct them if necessary. Often management uses performance reports as a follow-up tool to compare actual results with budgeted results.

The term budget has negative connotations for many employees. Often in the past, management has imposed a budget from the top without considering the opinions and feelings of the personnel affected. Such a dictatorial process may result in resistance to the budget. A number of reasons may underlie such resistance, including lack of understanding of the process, concern for status, and an expectation of increased pressure to perform. Employees may believe that the performance evaluation method is unfair or that the goals are unrealistic and unattainable. They may lack confidence in the way accounting figures are generated or may prefer a less formal communication and evaluation system. Often these fears are completely unfounded, but if employees believe these problems exist, it is difficult to accomplish the objectives of budgeting.

Problems encountered with such imposed budgets have led accountants and management to adopt participatory budgeting. **Participatory budgeting** means that all levels of management responsible for actual performance actively participate in setting operating goals for the coming period. Managers and other employees are more likely to understand, accept, and pursue goals when they are involved in formulating them.

Within a participatory budgeting process, accountants should be compilers or coordinators of the budget, not preparers. They should be on hand during the preparation process to present and explain significant financial data. Accountants must identify the relevant cost data that enables management's objectives to be quantified in dollars. Accountants are responsible for designing meaningful budget reports. Also, accountants must continually strive to make the accounting system more responsive to managerial needs. That responsiveness, in turn, increases confidence in the accounting system.

Although many companies have used participatory budgeting successfully, it does not always work. Studies have shown that in many organizations, participation in the budget formulation failed to make employees more motivated to achieve budgeted goals. Whether or not participation works depends on management's leadership style, the attitudes of employees, and the organization's size and structure. Participation is not the answer to all the problems of budget preparation. However, it is one way to achieve better results in organizations that are receptive to the philosophy of participation.

Q.2 On the basis of the data given below, prepare a cast budget of Kolkata Fruit Co. Ltd. For the quarter ending June, 2016 and estimate its cast requirements for June, 2016: Sales:

February, 2016	(`) 25,000
March, 2016	(`) 20,000
April to June, 2016	(`) 30,000 per month

Roughly half the sales are forecast. 90% of credit sales are collected in the month following the month of sale and the balance one month later.

(i) Fruits are always bought for cash to avail for the cash discount of 5%. The purchases budget for the second quarter (April-June) was 1,500 baskets per month @ 10 per basket.

(ii) Wages and salaries for second quarter are budgeted at 5,000 per month.

(iii) Manufacturing and other expenses budgeted for the quarter are as follows:

Cash manufacturing Expenses	(`) 4,500
Depreciation	(`) 7,500
Selling expenses	(`) 3,000
Administrative Expenses	(`) 2,000 (in April and May Only)

Ans.

Cash Budget
For the quarter ending June, 2018

Particulars	**April**	**May**	**June**
Receipts:	**Rs.**	**Rs.**	**Rs.**
(i) Opening Balance	-	2500	9250
(ii) Cash Sales [1/2 of Sales]	15000	15000	15000
(iii) Collection from Debtors	10250	14500	15000
TOTAL (A)	25250	32000	39250
Payments:			
(i) Cash purchases			
(Less cash discount)	14250	14250	14250
(ii) Wages & Salaries	5000	5000	5000
(iii) Cash Manufacturing Exp.			
(1/3 of 4500)	1500	1500	1500
(iv) Selling Expneses			
(1/3 of 3000)	1000	1000	1000
(v) Administration Expenses			
(1/2 of 2000 for April & May Only)	1000	1000	-
TOTAL (B)	22750	22750	21750
Closing Balance (A - B)	2500	9250	17500

Cash requirement for June, 2018: 21750

(1) In the absence of any information regarding opening cash balance, it has been assumed to be Nil.

(2) Amount of depreciation, being non-cash expense, has not been included.

Q.3 On the Basis of the following information in respect o an engineering company, what is the product-mix which will give the highest attainable profit?

Products	A	B	C
Raw material per unit (kgs)			
@ Rs. 10 per kg.	10	6	15
Labour hours per unit (hours)			
@ Rs. 1 per hour	15	25	20
Selling price per unit (Rs.)	125	100	200
Maximum units of production (units)	6000	4000	3000

Maximum production hours are 184000.

Ans.

Statement showing Contribution per Labour Hour

Particulars	A	B	C
	Rs.	Rs.	Rs.
Selling price (S)	125	100	200
Raw material	100	60	150
Labour	15	25	20
Marginal Cost (V)	115	85	170
Contribution (S - V)	10	15	30
Contribution per labour hour	0.67	0.6	1.5
Ranking	**II**	**III**	**I**

Distribution of Available Labour Hours

Product	Units	Required and Alloted Labour Hrs.	Balance (184000 Hrs.)
C	3000	60000	124000
A	6000	90000	34000
B	1360	34000	nil