

CHAPTER 7

CASH

BUDGET

INTRODUCTION

- *Cash budget occupies a unique position in the financial management of a modern business enterprise, particularly in enterprises running on a large scale. It makes certain that the business has sufficient cash available to meet its needs as and when they arise. Cash budget shows cash receipts from all sources of business and all payments and also the resultant cash balance for a definite future time period, which is generally an accounting year.*
- *In short, cash budget is a plan showing the cash position of business at different time intervals during the year. Even though sales budget and production budget have been very carefully framed; the business would be put to difficulties if proper attention to cash position is not paid.*
- *Generally, cash budget is derived from other budgets. Hence, other operating budgets are prepared first and then only the necessary figures of receipts and payments are obtained for preparing cash budget. In the first part of cash budget, estimates of Cash Receipts are shown whereas in the second part, estimates of Cash Payments are shown. Thus, on the basis of budget the position of cash at different periods of time will be available.*

ADVANTAGES OF CASH BUDGET

- *Planned Use of Cash*
- *Provision for Capital Expenditure*
- *Investment of Surplus Funds*
- *Dividend Policy*
- *Profitable Use of Cash*
- *Timely Payment of Debts*
- *Arrangement for Obtaining Funds*
- *Useful for Control*
- *Helps Co-ordination*
- *Easy to Obtain Funds*

LIMITATIONS OF CASH BUDGET

- *Estimates are Difficult*
- *Carelessness in Implementation*
- *Rigidity*
- *Expensive*

METHODS OF PREPARING CASH BUDGET

- *Receipts and Payments Method (Receipts and Disbursements Method)*
- *Adjusted Earnings Method (Adjusted Profit and Loss Method)*
- *Balance Sheet Method (Balance Sheet Projection Method)*
- *Working Capital Differential Method*

RECEIPTS AND PAYMENTS METHOD

- This is most widely-used and popular method of preparing cash budget. The estimates under this method may be divided into weekly, fortnightly or monthly basis. The method is of particular importance in business where sale is unstable, or seasonal or which suffers from shortage of liquid resources. Due to its flexibility, this method is used in planning cash at various time periods and thus helps in controlling cash disbursements.
- **Estimating Cash Receipts:** The sources of cash receipt in a business are generally sales, non-operating incomes like interest and dividend as well as capital transactions like sale of assets and issue of shares and debentures. The first step in preparing a cash budget under this method is to estimate the sales; as sales is the most important source of cash receipts. Once the total sales are estimated, it is very easy to put down the figures of cash sales. From the past experience, the proportion of cash sales can be determined. Any changes likely to occur in the future budget period are taken into account. There is no time-lag between sales and receipts in respect of cash sales.

RECEIPTS AND PAYMENTS METHOD (CONT.)

- **Estimating Cash Payments:** Cash payments generally consist of payment to creditors on account of credit purchases, payment of wages, overhead expenses, dividends, capital expenditures like purchase of assets, repayment of loans, etc. the estimates on various accounts are based on various operating budgets. E.g., payments to creditors are estimated on the basis of purchase budget, for wages and factory overhead, the basis will be production budget, etc.
- The closing cash balance every month will be available by deducting total cash payments from cash receipts. This gives an idea of either cash balance or cash deficiency and in the latter case, the finance manager will have to make arrangement; for bank overdraft. There are two factors which determine whether the cash balance is enough or not: First, the actual payments to be made next month and the actual timings of such payments. For example, if the collection from sales is available only after 15th of the month, then enough cash balance must be maintained for meeting payments for the first 15 days.

CASH BUDGET

For three months from January, 2012 to March, 2012

Particulars	January Rs.	February Rs.	March Rs.
Opening Cash Balance			
Add : Receipts :			
(1) Cash sales			
(2) Collection from debtors			
(3) Receipts from bills receivable			
(4) Interest and Dividend			
(5) Sale of fixed asset			
(6) Receipts from loan, Debentures etc.			
(7) Receipts from shares issued			
(8) Other receipts			
Total Receipts (a)			
Less : Payments :			
1. Cash purchases			
2. Payment to creditors			
3. Wages and salaries			
4. Administrative expenses			
5. Selling expenses			
6. Purchase of Fixed Asset			
7. Repayment of loan			
8. Payment of taxes			
9. Other Payments			
Total Payments (b)			
Closing Cash Balance (a-b)			

3. Prepare a cash budget for the period from 1st June to three months on the basis of the following estimates of incomes and expenses. The bank balance was Rs 1,00,000 as in the beginning of June.

Month	Sales Rs.	Purchases Rs.	Wages Rs.	Factory Expenses Rs.	Administrative and Selling Expenses Rs.
April	80,000	41,000	5,600	3,900	10,000
May	76,500	40,500	5,400	4,200	14,000
June	78,500	38,500	5,400	5,100	15,000
July	90,000	37,000	4,800	5,100	17,000
August	95,500	35,000	4,700	6,000	13,000

Selling commission at 5% on sales is payable after two months of sales. A machine costing Rs. 65,000 is to be purchased on cash basis in August and the dividend of the last year Rs. 15,000 will be payable in July. There is a two month period of credit allowed to customers and received from suppliers.

• **Solution:** Cash Budget for 3 months from June to August

Particulars	June	July	August
Opening Cash Balance	1,00,000	1,09,500	99,775
Add: Receipts			
(1) Collection from debtors	80,000	76,500	78,500
Total Receipts (A)	1,80,000	1,86,000	1,78,275
Less: Payments			
(1) Selling Commission (5% of sales)	4,000	3,825	3,925
(2) Purchase of Machine	---	---	65,000
(3) Payment of Dividend	---	15,000	---
(4) Payment to creditors	41,000	40,500	38,500
(5) Wages	5,400	4,800	4,700
(6) Factory Expenses	5,100	5,100	6,000
(7) Administration and Selling Expenses	15,000	17,000	13,000
Total Payments (B)	70,500	86,225	1,31,125
Closing Cash Balance (A – B)	1,09,500	99,775	47,150

2 From the following information of Gayatri Ltd., prepare Cash Budget for the three months from April to June 2012 :

(1) Cash and bank balance on 1-4-2012 is Rs. 60,000.

(2) Month	Total Sales Rs.	Purchases Rs.	Wages Rs.	Overhead Expenses Rs.
February	6,00,000	3,00,000	1,20,000	1,12,500
March	4,50,000	2,70,000	1,08,000	97,500
April	6,50,000	3,30,000	1,44,000	1,27,500
May	9,00,000	4,80,000	1,50,000	1,42,500
June	5,00,000	2,40,000	1,26,000	1,12,500

(3) Assume 40% of total sales are cash sales and 60% of credit sales.

(4) 50% of credit sales are realised in the month following sales and the remaining 50% in the next month following.

(5) The period of credit allowed by supplier is one month.

(6) Overhead expenses include Rs. 22,500 per month for depreciation on fixed assets.

(7) The time lag in payment of overhead expenses is $\frac{1}{2}$ month and time lag in payment of wages is one month.

(8) In June, 2012 Debenture interest of Rs. 37,500 is to be paid.

• **Solution:** Cash Budget for 3 months from April to June

Particulars	April	May	June
Opening Cash Balance	60,000	1,67,000	2,70,500
Add: Receipts			
(1) Cash Sales (40% of total sales)	2,60,000	3,60,000	2,00,000
(2) Collection from debtors (W.N. – 1)	3,15,000	3,30,000	4,65,000
Total Receipts (A)	6,35,000	8,57,000	9,35,500
Less: Payments			
(1) Payment to Suppliers	2,70,000	3,30,000	4,80,000
(2) Overhead Expenses (Excl. depreciation)	90,000	1,12,500	1,05,000
(3) Payment of Wages	1,08,000	1,44,000	1,50,000
(4) Debenture Interest	--	--	37,500
Total Payments (B)	4,68,000	5,86,500	7,72,500
Closing Cash Balance (A – B)	1,67,000	2,70,500	1,63,000

[3] Prepare a Cash Budget for three months ending on 30th September 2012 from the following information of Surabhi Limited :

(1) Cash and bank balance as on 1st July, 2012 Rs. 10,000.

Months	Sales Rs.	Manufacturing Expenses Rs.	Other Overhead Expenses Rs.
April	2,00,000	50,000	60,000
May	3,00,000	60,000	70,000
June	4,00,000	70,000	80,000
July	5,00,000	60,000	70,000
August	7,00,000	80,000	90,000
September	8,00,000	90,000	1,00,000
October	9,00,000	1,00,000	1,20,000

(3) Assume 20% of total sales are cash sales.

(4) 60% of credit sales are realised in month after sales, 30% in the second month and 10% in the third month.

(5) Purchases of materials are required at 30% on sales price.

(6) Anticipating sales of each month necessary purchases of materials are made in the preceding month. Purchases of materials are made for cash.

(7) The time lag in the payment of manufacturing expenses is 1/4 month and time lag in the payment of other overhead expenses is 1/2 month.

(8) A new machine is to be bought for Rs. 4,00,000 in July 2012. The payment on which are made in four equal monthly instalments from the delivery date.

(9) Dividend of Rs. 50,000 for the year 2011-12 is to be paid in September, 2012.

• **Solution:** Cash Budget for 3 months from July to September

Particulars	July	August	September
Opening Cash Balance	10,000	42,500	47,500
Add: Receipts			
(1) Cash Sales (20% of total sales)	1,00,000	1,40,000	1,60,000
(2) Collection from debtors (W.N. – 1)	2,80,000	3,60,000	4,88,000
Total Receipts (A)	3,90,000	5,42,500	6,95,500
Less: Payments			
(1) Payment to Suppliers	2,10,000	2,40,000	2,70,000
(2) Payment of Manufacturing Expenses	62,500	75,000	87,500
(3) Payment of Other Overhead Expenses	75,000	80,000	95,000
(4) Purchase of Machine	---	1,00,000	1,00,000
(5) Payment of Dividend	---	---	50,000
Total Payments (B)	3,47,500	4,95,000	6,02,500
Closing Cash Balance (A – B)	42,500	47,500	93,000

[8] On the basis of the following information, prepare a cash budget for Kapadia Textile Ltd. for the period January to June 2012.

- (1) Credit sales are 75% and cash sales 25% of total sales.
- (2) The 60% of credit sales are collected in the month after the sale, 25% in the third month and 15% in the fourth month.
- (3) The company has a gross profit margin of 20%.
- (4) Sales forecasts are as follows :

		Rs.			Rs.
Oct.	2011	3,60,000	March	2012	2,40,000
Nov.	2011	4,20,000	April	2012	3,60,000
Dec.	2011	4,80,000	May	2012	3,00,000
Jan.	2011	1,80,000	June	2012	2,40,000
Feb.	2012	2,40,000	July	2012	3,60,000

(5) Necessary goods for anticipated sales of each month are purchased and paid in the preceding month.

(6) The anticipated salaries and wages are as below:

		Rs.			Rs.
Jan.	2012	36,000	April	2012	62,500
Feb.	2012	48,000	May	2012	50,000
March	2012	60,000	June	2012	42,000

- (7) Interest of 10 % on Debentures of Rs. 6,00,000 is due every quarter on March, June, September and December every year.
- (8) Advance payment of Rs. 60,000 is paid in April, 2012.
- (9) A capital expenditure of Rs. 36,000 for purchase of making is planned in June, 2012.
- (10) Rent of Rs. 2,400 per month is payable.
- (11) The company has a cash balance of Rs. 1,20,000 on 31-12-2011, which is the minimum desired level of cash. Funds can be borrowed in multiples of Rs. 6,000 on a monthly basis at 10 per cent interest per annum. Interest is paid on the first of the month following the borrowing.

• **Solution:**

Cash Budget for 6 months from January to June

Particulars	January	February	March	April	May	June
Opening Cash Balance	1,20,000	2,69,850	3,05,700	1,96,050	1,24,400	1,58,750
Add: Receipts						
(1) Cash Sales	45,000	60,000	60,000	90,000	75,000	60,000
(2) Collection from debtors	3,35,250	2,18,250	1,95,750	1,73,250	2,34,000	2,29,500
Total Receipts (A)	5,00,250	5,48,100	5,61,450	4,59,300	4,33,400	4,48,250
Less: Payments						
(1) Payment to creditors	1,92,000	1,92,000	2,88,000	2,40,000	1,92,000	2,88,000
(2) Salaries and wages	36,000	48,000	60,000	62,500	50,000	42,000
(3) Interest on Debentures	--	--	15,000	--	--	15,000
(4) Advance Payment	--	--	--	60,000	--	--
(5) Purchase of Machine	--	--	--	--	--	36,000
(6) Payment of Rent	2,400	2,400	2,400	2,400	2,400	2,400
Total Payments (B)	2,30,400	2,42,400	3,65,400	3,64,900	2,44,400	3,83,400
Closing Cash Balance (A – B)	2,69,850	3,05,700	1,96,050	94,400	1,89,000	64,850
Add: Borrowed Loan	--	--	--	30,000	--	60,000
Less: Repayment of Loan	--	--	--	--	(30,000)	--
Payment of Interest on Loan	--	--	--	--	(250)	--
Closing Cash Balance	2,69,850	3,05,700	1,96,050	1,24,400	1,58,750	1,24,850

4 | From the following information of the Bhagvat Gita Co. Ltd., prepare cash budget for the three months from October, 2012 to December, 2012 :

Months	Sales Rs.	Closing Stock Rs.	Total Overhead Expenses Rs.
August	1,60,000	20,000	24,000
September	2,00,000	30,000	30,000
October	2,40,000	50,000	40,000
November	3,20,000	60,000	36,000
December	2,80,000	55,000	40,000
January	3,00,000	50,000	30,000

Additional Information :

(1) On 1-10-2012 Bank Balance was Rs. 1,00,000.

(2) Goods are sold at a profit of 33.1/3% on cost price.

(3) Purchases are made for cash.

50% of credit sales are

(3) Purchases are

(4) Cash sales are 40% of the total sales, 50% of credit sales are collected in the month after sales and remaining sales are collected in the second month after sales.

(5) Total overhead expenses include monthly fixed overhead expenses of Rs. 10,000, which is paid in the same month. Variable overhead expenses are paid in the subsequent month.

(6) An old machine is to be sold for Rs. 60,000 in November.

(7) A new machine is to be purchased for Rs. 1,00,000 in November, the payment of which is to be made 80% against delivery and the remaining amount in the subsequent month.

(8) Income-tax is to be paid for Rs. 20,000 in November.

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• **Solution:** Cash Budget for 3 months from October to December

Particulars	October	November	December
Opening Cash Balance	1,00,000	74,000	4,000
Add: Receipts			
(1) Cash Sales (40% of total sales)	96,000	1,28,000	1,12,000
(2) Collection from debtors (W.N. – 2)	1,08,000	1,32,000	1,68,000
(3) Sale of old Machine	--	60,000	--
Total Receipts (A)	3,04,000	3,94,000	2,84,000
Less: Payments			
(1) Payment to Suppliers (W.N. – 1)	2,00,000	2,50,000	2,05,000
(2) Payment of Fixed monthly overheads	10,000	10,000	10,000
(3) Payment of Other Overhead Expenses (W.N. – 3)	20,000	30,000	26,000
(4) Purchase of new Machine	--	80,000	20,000
(5) Payment of Income-tax	--	20,000	--
Total Payments (B)	2,30,000	3,90,000	2,61,000
Closing Cash Balance (A – B)	74,000	4,000	23,000

42. From the following particulars of Gujarat Ltd. prepare Cash Budget for the three months ending on 30-6-2017 :

Month	Total Sales Rs.	Total Purchases Rs.	Factory Overheads Rs.	Admn. Expenses Rs.	Selling Expenses Rs.
February	3,00,000	2,00,000	60,000	24,000	24,000
March	4,00,000	3,00,000	80,000	36,000	32,000
April	5,00,000	5,00,000	60,000	44,000	40,000
May	6,00,000	6,00,000	80,000	64,000	48,000
June	8,00,000	5,00,000	1,00,000	48,000	56,000

Additional Information :

- (1) Cash sales are 20% of total sales. Cash discount of 10% is allowed on cash sales. 10% goods are returned from credit sales. 50% of credit sales are collected in the month after sales and remaining 50% of sales are collected in the second month after sales.
- (2) 50% of total purchase is on cash basis and 10% discount is received on this cash purchase, while dues for credit purchases are paid in next month of purchase.

- purchase.
- (3) Time lag : Factory Expenses $\frac{1}{2}$ month,
Administrative Expenses $\frac{1}{4}$ month, and
Selling Expenses $\frac{1}{8}$ month.
- (4) A cheque for Rs. 1,20,000 being amount of last year's income tax refund, will be received in April, 2017. The same will be deposited in Bank on 15th May.
- (5) On 1st April the balance of Cash and Bank is Rs. 3,20,000.
- (6) Interest income is to be received in May at 12% on fixed deposit of Rs. 1,00,000 subject to tax at 20.40%.
- (7) In March, 2017 a machine costing Rs. 2,00,000 is to be purchased by instalments. 20% amount is to be paid at the time of agreement and the rest amount is to be paid in four equal monthly instalments with 12% interest per annum.
- (8) The Company has purchased 25,000 equity shares of Star Computers Ltd. having face value of Rs. 100 each, at Rs. 150 per share in the year 2015. Prevailing market price of each share is Rs. 200. Star Computers Ltd. has declared dividend at 15% and paid the amount of dividend in June, 2017.

• **Solution:** Cash Budget for 3 months from April to June

Particulars	April	May	June
Opening Cash Balance	3,20,000	94,400	(81,248)
Add: Receipts			
(1) Cash Sales (W. N. 1)	90,000	1,08,000	1,44,000
(2) Collection from debtors (W. N. 1)	2,52,000	3,24,000	3,96,000
(3) Income Tax Refund	---	1,20,000	---
(4) Interest Received on Fixed Deposit (W.N. 6)	---	9,552	---
(5) Dividend Received (W. N. 8)	---	---	3,75,000
Total Receipts (A)	6,62,000	6,55,952	8,33,752
Less: Payments			
(1) Cash Purchase (W. N. 2)	2,25,000	2,70,000	2,25,000
(2) Payment to Creditors (W. N. 2)	1,50,000	2,50,000	3,00,000
(3) Payment of Factory Expenses (W. N. 3)	70,000	70,000	90,000
(4) Payment of Admin. Expenses (W. N. 4)	42,000	59,000	52,000
(5) Payment of Selling Expenses (W. N. 5)	39,000	47,000	55,000
(6) Payment of Installment of Machine (W.N. 7)	41,600	41,200	40,800
Total Payments (B)	5,67,600	7,37,200	7,62,800
Closing Cash Balance (A – B)	94,400	(81,248)	70,952