CASH BUDGET

DR. BACHHA KUMAR RAJAK
DEPARTMENT OF COMMERCE
BHARATI MANDAN COLLEGE ,RAHIKA
L.N.M.U., DARBHANGA (BIHAR) INDIA)
EMAIL:-bachharajak@gmail.com
MOBIL:-9931663751,9431018858

It is an estimate of cash receipts and disbursements during a future period of time. "The Cash Budget is an analysis o future, short or long period of time. It is a forecast of expected cash intake and outlay" (Soleman,–HandbookofBusinessEzraadministration).

Procedure for preparation of Cash Budget:

1. First take into account the opening cash balance, if any, for the beginning of the period for which the cash budget is to be prepared.
2. Then Cash receipts from various sources are estimated. It may be from cash sales, cash collections from debtors/bills receivables, dividends, interest on investments, sale of assets, etc.
3. The Cash payments for various disbursements are also estimated. It may be for cash purchases, payment to creditors/bills payables, payment to revenue and capital expenditure, creditors for expenses, etc.
4. The estimated cash receipts are added to the opening cash balance, if any.
5. The estimated cash payments are deducted from the above proceeds.
6. The balance, if any, is the closing cash balance of the month concerned.
7. The closing cash balance is taken as the opening cash balance of the following month.
8. Then the process is repeatedly performed.

9. If the closing balance of any month is negative i.e the estimated cash payments exceed estimated cash receipts, then overdraft facility may also be arranged suitably.

Example:

4. From the following budgeted figures prepare a Cash Budget in respect of three months to June 30, 2006.

Month	Sales Rs.	Materials Rs.	Wages Rs.	Overheads Rs.
January	60,000	40,000	11,000	6,200
February	56,000	48,000	11,600	6,600
March	64,000	50,000	12,000	6,800
April	80,000	56,000	12,400	7,200
May	84,000	62,000	13,000	8,600
June	76,000	50,000	14,000	8,000

Additional information:

1. Expected Cash balance on 1st April, 2006 –Rs. 20,000
2. Materials and overheads are to be paid during the month following the month of supply.
3. Wages are to be paid during the month in which they are incurred.
4. All sales are on credit basis.
5. The terms of credits are payment by the end of the month following the month of sales: Half of credit sales are paid when due the other half to be paid within the month following actual sales.
6. 5% sales commission is to be paid within in the month following sales
7. Preference Dividends for Rs. 30,000 is to be paid on 1st May.

8. Share call money of Rs. 25,000 is due on 1st April and 1st June.

9. Plant and machinery worth Rs. 10,000 is to be installed in the month of January and the payment is to be made in the month of June.

Answer:

Cash Budget for three months from April to June, 2006

Particulars	April Rs.	May Rs.	June Rs.
Opening Cash Balance	20,000	32,000	(-) 5,600
Add: Estimated Cash Receipts:			
Sales Collection from debtors	60,000	72,000	82,000
Share call money	25,000		25,000
	1,05,000	1,04,600	1,01,400
Less: Estimated Cash Payments:			
Materials	50,000	56,000	62,000
Wages	12,400	13,000	14,000
Overheads	6,800	7,200	8,600
Sales Commission	3,200	4,000	4,200
Preference Dividend	---	30,000	---
Plant and Machinery	---	---	10,000
	72,400	1,10,200	98,800
Closing Cash Balance	32,600	(-) 5,600	2,600

Workings:

1. Sales Collection:

Payment is due at the month following the sales. Half is paid on due and other half is paid during the next month. Therefore, February sales Rs. 50,000 is due at the end of March. Half is given at the end of March and other half is given in the next month i.e., in the month of April. Hence, the sales collection for the month of April will be as follows:

For April –Half of February Sales (56,000 x ½) = 28,000

- Half of March Sales (64,000 x ½) = 32,000

Total Collection for April = 60,000

Similarly, the sales collection for the months of May and June may be calculated.

2. Materials and overheads:

These are paid in the following month. That is March is paid in April, April is paid in May and May is paid in June.

3. Sales Commission:

It is paid in the following month. Therefore,

For April –5% of March Sales (64,000 x 5 /100) = 3,200

For May –5% of March Sales (80,000 x 5 /100) = 4,000

For April –5% of March Sales (84,000 x 5 /100) = 4,200