

Classification of Budget

1. Production Budget
2. Raw Material Budget
3. Production Cost Budget
4. Labour Budget
5. Selling and Distribution Overhead Budget
6. Sales Budget
7. Master Budget
8. Flexible Budget
9. Capital Expenditure Budget
10. Cash Budget
11. Zero Base Budgeting

1. Cash Budget

An estimation of the cash inflows and outflows for a business or individual for a specific period of time. Cash budgets are often used to assess whether the entity has sufficient cash to fulfill regular operations and/or whether too much cash is being left in unproductive capacities.

“Cash budget is a detailed plan showing how cash resources will be acquired and used over some specific time period”

How To Create A Cash Budget

There are three main components necessary for creating a cash budget. They are:

- ✓ Time period
- ✓ Desired cash position
- ✓ Estimated sales and expenses

✓ Time Period

The first decision to make when preparing a cash budget is to decide the period of time for which your budget will apply. That is, are you preparing a budget for the next three months, six months, twelve months or some other period? In this Business Builder, we will be preparing a 3-month budget. However, the instructions given are applicable to any time period you might select.

✓ Cash Position

The amount of cash you wish to keep on hand will depend on the nature of your business, the predictability of accounts receivable and the probability of fast-happening opportunities (or unfortunate occurrences) that may require you to have a significant reserve of cash.

You may want to consider your cash reserve in terms of a certain number of days' sales. Your budgeting process will help you to determine if, at the end of the period, you have an adequate cash reserve.

Particulars	
Beginning cash balance	
Add: Cash Receipts:	
Cash Sales	
Collection of accounts receivable	
Other income	
Total cash collected	
Less: cash payments:	

Raw materials(or inventory)	
Payroll	
Other direct expenses	
Advertising	
Selling expense	
Administrative expense	
Other payments	
Total cash expenses	
Cash surplus(or deficit)	

Flexible Budget

A Flexible budget is, “ a budget designed to change in accordance with the level of activity actually attained”

Thus, a budget prepared in a manner so as to give the budgeted cost for any level of activity is known as a ‘flexible budget’. Such a budget is prepared after considering the fixed and variable elements of cost and the changes that may be expected for each item at various levels of operations.

Master Budget

A master budget is defined as “ the summary budget incorporating the functional budgets which is finally approved, adopted and employed”, The budget may take the form of budgeted profit and loss account and balance sheet. It contains sales, production cost, cash position, debtor, fixed assets, bills payable etc.

Zero Base Budgeting

A Planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (Hence Zero Base) and shifts the burden of proof to each manager to justify why he should spend money at all. The approach requires that all activities be analyzed in decision packages which are evaluated by systematic analysis and ranked in order of importance.

Steps or process involved in ZBB

1. The objective of budgeting should be clearly determined because the objectives differ from concern to concern.

2. Whether it should be adopted in all operational areas or only in specific areas should be decided.
3. Proper decision packages must be identified.
4. Cost-benefit analysis is undertaken, which will help in fixing priority for various projects.
5. Last step is to finalize the budget.

Merits of ZBB

1. It helps the management to allocate the funds, according to benefits.
2. It will be very helpful for the management to improve the efficiency.
3. It helps in identifying and controlling the wasteful areas.
4. It will allow, only those activities which will help in the achievement of organizational goals.
5. It will be helpful in determining the utility of each and every activity of the business.
6. It is an important tool in integrating the managerial activities of planning and control.

Demerits of ZBB

1. Flexible budgeting is not possible under ZBB
2. It is a time-consuming one
3. The cost of operating it is highly expensive
4. It is not suitable for non-financial matters.