Class: 10th
Comm. Stud.
Lokesh Arora

Tender Heart High School

Budgeting

Date 30/9/24
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Good Morning Students
This lesson is for class 10th for the subject of 'Commercial Studies'. The topic for today is 'Budgeting and types of budgets' which is covered in chapter 9 titled 'Budgeting' of your book.
This lesson is being submitted to you on 30/9/24.
All the students now please open page number 111 of your book.

Budget:-
A budget is a detailed plan of operations for some specific future period. It is an estimate of needs and expected results prepared in advance of the period to which it relates.

According to the Institute of Cost and Management Accountants England,
"A budget is a financial and/or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective"

Main features of budget are as follows:-

(i) A budget relates to a future period and is prepared in advance.
(ii) It is based on the objectives to be attained and a detailed plan of

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actions.

(iii) It is a statement expressed in monetary and/or physical units. For example, a budget may provide for a sale of ₹1,00,000 (monetary units) or for a sale of 1000 kg (Physical units) or for a sale of 1000 kg/- of ₹1,00,000 (both monetary and physical units)

(iv) It is based on the objectives to be achieved and the policies to be pursued by the organisation.

The process of preparing budgets is known as budgeting.

Forecast:-

A forecast is merely an estimate of what is likely to happen in future. It is a statement of probable events. Anyone can make a forecast.

For difference between Budget and forecast refer to page number 112 of your book.

Utility of Budgets:-

Budgets are very useful in management. They offer the following advantages:-

1. Sound planning
2. Higher Efficiency.
3. Sense of Responsibility
4. Source of Motivation
5. Coordination

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6. Delegation of Authority
7. Effective Control
For explanation refer to page 115 & 116 of your book.

Types of Budgets :-

1. Sales Budget :-
Sales Budget is a forecast of sales to be achieved during a specified period of time. It lays down the revenue goals of the enterprise. All the budgets are prepared on the basis of sales budget. Sales budget shows the break up of total sales productwise, territorywise and monthwise. The sales manager is responsible for the preparation and execution of sales budget. The following factors are taken into consideration while preparing a sales budget :-
(i) Past sales Figures
(ii) Salesmen's estimates
(iii) General Trade Prospects
(iv) Orders on hand.
(v) Future Product Plans
(vi) Potential Market.

2. Production Budget :-
Production budget contains an estimate of total volume of production productwise and week or monthwise. Production budget is normally based upon the sales budget. However, when it is not possible to forecast sales on account of frequent changes in style and fashions, production

budget is prepared on the basis of past experience. The works manager is responsible for the preparation and execution of production budget.

A well planned production budget is required to ensure sufficient stock for sales, to keep inventory within reasonable limits and to manufacture goods in the most economical manner.

The following factors should be taken into consideration while preparing a production budget :-

(i) Sales Requirement (ii) Inventory Policy.
(iii) Plant Capacity (iv) Availability of labour and material.

Purchase Budget :-

The purchase budget contains details about the quantity and quality of various things which the firm needs to purchase during the coming year. The total amount to be spent on purchases as well as the amount of each item of purchase are also given. Purchase budget helps to ensure that the required items are available as and when needed for smooth functioning of the business.

Cash Budget :-

Cash budget is a summary statement of the firm's expected inflows and outflows of cash over a future time

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period. It tells us about how much of cash will be required at what time and how much of excess cash will be available so that cash can be arranged when required and excess cash can be invested. A cash budget is helpful in :-

(i) Determining the future cash requirements of the firm,
(ii) planning for financing of those requirements, and
(iii) exercising control over cost and liquidity of the firm.

The overall objective of a cash budget is to enable the firm to meet its commitments in time and at the same time prevent accumulation of excess cash balance.

Master Budget:-

A master budget consists of a projected Income statement and a projected balance sheet showing the organization's objectives and proposed ways of attaining them. It is the summary of all the budgets of the firm.

Write the answers of the following questions

1. What is a Budget?
2. Give difference between budget and forecast.
3. What is Cash budget?
4. Explain the Utility of budgets.

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last page.