



JAGATPUR P.G COLLEGE

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NAME OF PAPER: ACCOUNTING FOR PLANNING & CONTROL

TOPIC: CASH BUDGETING

UNIT : 1st

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- Manoj Kumar

Rai

CASH BUDGET

Meaning:

Forecasting and planning the cash position of a firm is known as cash budget. This budget represents the amount of cash receipts and payments, and a balance during the budgeted period. A cash budget is a detailed estimate for some future period of time of cash inflow, from all sources, cash disbursements for all purposes and the resultant cash balances.

Definition

According to Walker: A cash budget is a comparison of estimated cash inflows and outflows for a particular period, such as a day, week, month, quarter or a year.

According to Guttman & Dougall: The cash budget is an estimate of cash receipts and disbursements for a future period of time.

According to Malchman & Salvin: The cash budgets are plans for financing the budgeted activities of the company.”

Objectives of cash budget

Cash is as important in business as is blood in human body. For a healthy person flow of blood is necessary like that for successful direction of business activities sufficient cash amount is must. The main objectives of preparing cash budget as follows:

- Cash budget helps in cash planning. It shows the cash surplus as well as deficiency of cash at selected point of time.
- The preparation of cash budget assists in determining in advance how such fund will be needed and when.
- It enables a firm to maintain a sound liquidity.

- It acts as a control device tool. To control on cash it is one of the main objectives.
- It maintains the co- ordination between cash and working capital.
- It acts as a standard for evaluating the performance of operations.
- It decides to take corrective action for excess cash.
- To select useful financial resources for supply of financial needs.

Preparation of cash budget

A budget controller or finance officer is responsible for preparing cash budget. As this budget is affected by and based on the estimate of different functional departments of the concern, the finance officer takes advice and cooperation of heads of these departments.

Following points should be kept in mind while preparing cash budget.

- Determination of period of budget
- Estimation of cash flow
- Estimation of cash balances
- Determination of the method of the budget
- Determination of financial requirements

Importance or Advantages or Utility of cash budgeting

The cash plays vital role in the firm's economic life. A business enterprise needs cash for meeting several payments and to provide a cushion for a rainy day. Cash budgeting is important due to following reasons:

- Estimation of future cash requirements
- Helpful in the selection of suitable sources of financing
- Maintenance of liquidity

- Control over cash expenditure
 - Helpful in borrowing
 - Appropriate dividend policy
 - Utilization of cash
 - Helpful in co- ordination
 - Assured as to repayment of loan
- Knowledge of operational efficiency

Questions:

- What is cash budgeting? Explain its utility for management.
- How does a cash budget help in the management of working capital? Explain.

REFERENCE

Dr. Kamna Dhawan

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THANK YOU