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JAGATPUR P.G COLLEGE

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NAME OF PAPER: *ACCOUNTING FOR PLANNING & CONTROL*

TOPIC: *CASH BUDGET*

UNIT : 1st

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- Manoj Kumar Rai

Method of cash budgeting

There are basically three methods of preparing cash budget.

These are:

- Receipts and payments method

In this method, Cash budget is divided into two parts: one part shows the amount and timing of cash receipts, while the other part shows the amounts and timing of cash disbursements. Thus, the method involves the following items of cash receipts and cash payment.

(A). Cash receipts:

- Cash receipts from operations
- Non-operating cash receipts
- Cash receipts from capital transaction

(B). Cash disbursements:

- Cash disbursements for operating cost.
- Cash disbursements for non- operating expenses.
- Capital cash disbursements.

(2). Adjusted profit and loss method.

This method is also known as cash flow statement. This method is called as adjusted profit and loss method, because in this method, the figure of profit or loss based on accrual accounting is converted into a figure of cash by adjusting it with the items of incomes and expenses not effecting cash inflows and outflows. This method is very useful for budgetary control.
In this method, the following adjustments are required in the amount of profit or loss to make it cash equivalents.
Items to be added:

> Non-cash items like depreciation, deferred expenses written off, intangible assets written off, preliminary expenses written off.
> Change in assets, liabilities and net worth between two periods, which increase Cash. items are decrease in closing stock, decrease in debtor and B/R , decrease in investments, sale of fixed assets, issue of share capital and debentures etc.

(B) Items to be deducted:

Non-cash incomes like accrued rent, accrued interest, accrued dividend, accrued royalty, etc.

Change in assets, liabilities and net worth between two periods with decrease cash balance like increase in closing stock, increase in debtors, investments,decrease in creditors, B/P, and other liabilities, outstanding expenses, purchase of fixed assets etc.

Cash forecast (Budget)

(for the years……to….)

	Years		
	R.s.	Rs.	Rs.
Balance B/ f			
Additions to cash:			
Budgeted Net profit for the year			
Depreciation written off provisions and reserves			
Sale of fixed assets			
Outstanding expenses			
Reduction in stock, Debtor and B/R			
Increase current in liabilities			
Issue of share capital and debentures			
Total cash Available			
Deduction from cash			
Payment of dividends			
Redemption of debentures and pref. Share			
Purchase of fixed assets			
Increase in current assets			
Decrease in current liabilities			
Total deductions			
Balance C/f			

(3) Projected Balance sheet Method

For long term cash forecasting projected Balance method is most suitable. In this method, a projected Balance sheet is prepared as at the and of the budget period showing therein all items except cash and then both sides of balance sheet are balanced, the balancing figure would be the estimated closing cash or bank balance. If assets sides exceeds the liabilities side, the difference would be bank overdraft and in the reserve situation, the difference would be cash at bank.

Time lag:

The meaning of this word is "difference of time between two nearest time period, "In this, time lag period should be calculated according to given instructions. For debtors purpose time lag is related to credit sales and time for collection from them. And in relation to creditors, time lag period is time gap between credit purchase and its payment.

REFERENCE

Dr. Kamna Dhawan
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THANKYOU