



JAGATPUR P.G COLLEGE

**AFFILIATED MAHATMA GANDHI KASHI
VIDIYAPITH, VARANASI**

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***NAME OF PAPER: ACCOUNTING FOR PLANNING &
CONTROL***

TOPIC: FIXED BUDGET

UNIT : 1st

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- Manoj Kumar Rai

Fixed and Flexible Budget

On the basis of flexibility, Budget can be of two types:

1.Fixed Budget

2.Flexible Budget

Fixed Budget :- According to I.C.M.A London, "Fixed Budget is a Budget which is designed to remain unchanged irrespective of the level of activity attained."

Limitations of fixed Budget

- A fixed Budget is a static Budget. Being rigid, it is not adjusted to the actual level of activity attained.
- A fixed Budget is not prepared according to the pattern of behaviour of costs. All costs, fixed as well as variable, are in relation to only one level of activity.
- A fixed Budget is only a single Budget for a particular level of activity specified. It is not designed to change with the actual level of activity.
- In case of fixed Budget, if the Budget and actual activity levels vary, the correct ascertainment of costs and fixation of price becomes difficult.
- Forecasting of results is difficult under fixed Budget.

Flexible Budget

This is a dynamic Budget . It is a budget which is designed to change in accordance with the level of activity . Actual out put may differ from the budgeted out put and as such , it is necessary to modify the budget on the basis of changed out put.

- According to institute of cost and management accountant, London: A flexible Budget is a budget which by recognising the difference between fixed , semi and variable costs is designed to change in relation to the level of activity attained.

Preparation of flexible Budget

- Fixed costs
- Variable costs
- Semi variable costs

Questions.

The production at 50% level is 600 unit and selling price is Rs 35 per unit . Total costs at 50% and 60% of activity are respectively Rs 25500 and Rs 28000. Find out the profit and loss at 80% activity level.

Solutions,:

Production at 50% level=600 units

Production at 60%= $600/50 \times 60=720$ units

Let' fixed cost be Rs x and variable cost per unit Rs y:

$$X+720y=28000 \quad (I)$$

$$X+600y=25500 \quad (ii)$$

$$120y= 2500$$

$$Y=2500/120=20.83$$

Putting the value of y in equation (I)

$$X+720y=28000$$

$$X+720 \times 20.83=28000$$

$$X+14998=28000$$

$$X=28000-14998=\text{Rs } 13003$$

Profit at 80% level= $100/50 \times 80=960$ unit

Variable costs@ 960×20.83 per unit =19997

Fixed costs =13003

Total costs =33000

Profit = 600

Sales@Rs.35 per unit= 33600

Excercise:

Questions 2.

With the help of following data for 60% activity,prepare a budget for production at 80% and 100% capacity.

Production at 60% capacity: 600 units

Materials.	Rs.100 per unit.
Labour.	Rs.40 per unit
Expenses.	Rs.10 per unit
Factory expenses.	Rs.40,000(40% fixed)
Administrative expenses	Rs.30,000(60%fixed)

Questions 3.

With the help of the following data for a 50% capacity prepare a budget for production at 75%, 90% and 100% capacity.

Production at 50% capacity. 4,000 units.

Materials.	Rs. 30 per unit
Labour.	Rs.20 per unit
Direct expenses.	Rs.10 per unit
Factory expenses.	Rs.40,000(50% fixed)
Administrative expenses.	Rs.80,000(70% variable)

REFERENCE

Dr. Kamna Dhawan
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THANK YOU