



# Welcome

To

*Our Presentation*



Presentation on-

# Cash budget



**Managerial Accounting**

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# Cash Budget

- A cash budget is a forecast of estimated cash receipts, estimated cash payments and the resultant cash position for a certain period of time.
- Done on a shorter time frame than
  - other statements.
  - (i.e., month-by-month or even week-by week).

# Why is a cash budget important?

- ⊕ **Allows companies to predict possible cash shortages and take corrective action before a crisis occurs.**
- ⊕ **Allows companies to see if large sums of excess cash are lying idle—could be put to better use.**
- ⊕ **Assists with the identification of when commitments are due.**

# Why is a cash budget important?

- ⊕ Reveals periods of **excess funds**
- ⊕ Reveals weaknesses in business' s **debt collection policy**
- ⊕ Adjustments for **seasonal fluctuations** can be made
- ⊕ Budget reveals periods when **shortages of funds may occur**

# Preparation of cash budget.

Receipts and payments method: under this method all the cash receipts and payments expected during the budget period is considered. However care must be taken to ensure that cash adjustments and accruals are not shown in cash budget.

# CASH INFLOWS

⊕ Sales and other cash income

⊕ New loans received

⊕ Sales of capital assets

⊕ Nonfarm income

# Cash Outflows

- ⊕ Cash expenses
- ⊕ Principal payments
- ⊕ Purchase of capital assets
- ⊕ Nonfarm expenses
- ⊕ Ending cash on hand

# Do not include:

- Depreciation
- Opportunity costs
- Any other non-cash income or expense



## GENERAL FORMAT OF THE CASH BUDGET

	Jan.	Feb.	...	Nov.	Dec.
Cash receipts	\$XXX	\$XXG		\$XXM	\$XXT
Less: Cash disbursements	<u>XXA</u>	<u>XXH</u>	...	<u>XXN</u>	<u>XXU</u>
Net cash flow	\$XXB	\$XXI		\$XXO	\$XXV
Add: Beginning cash	<u>XXC</u>	<u>XXD</u>	<u>XXJ</u>	<u>XXP</u>	<u>XXQ</u>
Ending cash	\$XXD	\$XXJ		\$XXQ	\$XXW
Less: Minimum cash balance	<u>XXE</u>	<u>XXK</u>	...	<u>XXR</u>	<u>XXY</u>
Required total financing		\$XXL		\$XXS	
Excess cash balance	\$XXF				\$XXZ

Excess cash balance

\$XXF

\$XXZ

Required total financing

\$XXL

\$XXS

# Sample problem

The following example illustrates the format of cash budget. Company A maintains a minimum cash balance of \$5,000. In case of a deficiency, loan is obtained at 8% annual interest rate on the first day of the period.

## Cash Budget

For the Year Ending December 30, 2015

Particular	Quarter				Year
	1	2	3	4	
Beginning Cash Balance	\$5,200	\$5,000	\$5,000	\$11,740	\$5,200
Add: Budgeted Cash Receipts:	37,150	54,190	53,730	62,300	207,370
Total Cash Available for Use	\$42,350	\$59,190	\$58,730	\$74,040	\$212,570
Less: Cash Disbursements					
Direct Material	14,960	16,550	16,810	19,410	67,730
Direct Labor	8,830	9,610	9,750	11,900	40,090
Factory Overhead	10,020	10,400	11,000	11,780	43,200
Selling and Admin. Expenses	7,640	8,360	8,500	9,610	34,110

Equipment Purchases		6,000		14,000	20,000
Total Disbursements	\$41,450	\$50,920	\$46,060	\$66,700	\$205,130
Cash Surplus/(Deficit)	\$900	\$8,270	\$12,670	\$7,340	\$7,440
Financing:					
Borrowing	4,100				4,000
Repayments		-3,188	-912		-4,000
Interest		-82	-18		-100
Net Cash from Financing	\$4,100	-\$3,270	-\$930		-100
Budgeted Ending Cash Balance	\$5,000	\$5,000	\$11,740	\$7,340	\$7,340

# Schedule of Expected Cash Collections

Schedule of expected cash collections from customers shows the budgeted cash collections on sales during a period. It is a component of master budget and it is prepared after the preparation of sales budget and before the preparation of cash budget.

The calculation of expected cash collections is based on the total sales figure obtained from sales budget. The management estimates the proportion in which sales are expected to be collected in the current and following periods. This is used to determine how much sales are expected to be collected during a period.

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# Other Cash Budget Issues

Cash balances may fluctuate considerably within a single accounting period, thereby masking cash shortfalls that can put a company in serious jeopardy. To spot these issues, it is quite common to create and maintain cash forecasts on a weekly basis. Though these short-term budgets are reasonably accurate for perhaps a month, the precision of forecasting declines rapidly thereafter, so many companies then switch to budgeting on a monthly basis. In essence, a weekly cash budget begins to lose its relevance after one month, and is largely inaccurate after two months.

**Any  
Questions?**





Thank You