

Remaining part of Chapter-5

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Budget:- There are number of definitions of budget.

1. According to J. Fred Meston "A budget is the expression of a firm's plan in financial form for a period of time into the future."
2. According to George R. Terry, "Budget is an estimate of future needs arranged accordingly to an orderly basis, covering some or all of the activities of an enterprise for a definite period of time."

⇒ Budget is mainly concerned with policy making.
* Making of budget is nothing else than advance planning.

Features of Budget:- Main features of budget are:-

1. It is prepared for fixed period.
2. It makes the chain of past, present & future.
3. It is prepared for pre determined objective.
4. It is expressed in monetary form. Monetary means money related.
5. It is used for comparative study.

Types of Budget:- Budget is classified as follows:

1. Functional Classification
2. Classification according to time factor.
3. Classification according to flexibility.

1. Functional Classification: According to this classification, budget is related with a particular function and integrated with master budget of business. e.g.

- i) Sales budget :- It is the forecast of total sales of a group of products expected to be sold. It shows expected revenue from sales.
- ii) Production Budget :- It is the forecast of production based on sales and production capacity.
- iii) Personnel Budget :- It is the budget of personnel inventory which includes labour employed.
- iv) Research and Development Budget :- This budget relates to the improvement in quality of products by research.
- v) Cash Budget :- It is an estimate of cash receipt and payment for future period of time.
* Cash budget is prepared for a short period e.g. one month, one quarter or one year.
⇒ Period of cash budget must synchronised with period of other budgets.
- vi) Capital Budget :- It is the forecast of outlays or expenditure on fix asset and sources of capital required.
- vii) Master Budget :- It is a summary budget for whole business.

2. Classification according to Time Factor

Following budgets are made under this classification

i) Long Term Budget :- This budget is meant for long term. It is concerned with planning of a firm over five to ten year.

ii) Short Term Budget :- It is generally a short term production planning. It is prepared for a period of one or two years.

iii) Current Budget :- This budget is prepared for a very short period of time e.g. one month or one season etc.

3. Classification according to Flexibilities :-

Following budgets are made under this classification:

i) Fixed Budget :- In this budget, targets are fixed. Although budget can be changed according to requirement but its nature is fixed.

ii) Flexible Budget :- It is also known as variable budget. This budget shows expected behaviour of cost at different volume levels.

It is based on assumption that the actual level is often beyond the control of management.

