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Leaving Cert Accounting

Free Notes

Budgets

Budgets

A budget is a financial plan of future costs and revenues for a particular time period in the future.

Purposes of Budgeting

- To evaluate budgeted costs with actual costs at same level of activity
- To aid in monitoring costs
- To project product levels
- To judge same with same

Operating/Subsidiary Budgets

- Sales Budget = Budgeted Unit Sales X Budgeted Selling Price
- Production Budget = Budgeted Sales + Budgeted Closing Stock – Budgeted Opening Stock
- Material Usage Budget = Production Units X Units of Different Materials Required per Product
- Materials Purchase Budget = Materials Usage Budget + Closing Stock of Materials – Opening Stock of Materials

Principal Budgets

1. Cash Budget
2. Master Budget
3. Flexible Budget

Cash Budget

- Set/up on weekly/monthly basis to allow managers deal with shortages or surpluses
- Display the opening cash position + inflows – outflows = closing cash
- Just actual receipts and payments are included
- Only when really received and paid, not **due**
- **Depreciation is excluded each time**
- Credit sales and purchases at the end of the period are excluded
- Modifications in stock level will impact on cash budgets
- The closing balance at the end of the period one is equivalent to the opening balance of period two.

Master Budget

- Contains all all subsidiary budgets
- Comprises of budgeted profit and loss account and budgeted balance sheet.

- If manufacturing firm a budgeted manufacturing account and budgeted trading account will also be prepared.

Flexible Budgets

- Altering the original budget to the actual level of activity so that comparisons can be made
- Separate costs into fixed costs and variable costs using the high low method.

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