Budgets & Budgetary Control

Q.1. List the eight functional budgets prepared by a business.

Ans -: A functional budget is prepared according to the various functions of the organization e.g :- sales, production ,administration research & development etc.

- Most popular functional budgets :

1. Sales budget
2. Production budget
3. Materials budget
4. Labour budget
5. Manufacturing overhead budget
6. Administrative cost budget
7. Plant utilization budget
8. Research and Development budget
9. Capital expenditure budget
10. Cash budget.

Q.2. Describe the salient features of budget manual.

Ans -:

1. A budget is concerned for a definite future period.
2. A budget is a written document.
3. A budget is a detailed plan of all the economic activities of a business.
4. All the departments of a business unit co-operate for the preparation of a business budget.
5. Budget is a means to achieve business and it is not an end in itself.
6. Budget needs to be updated,corrected and controlled every time when circumstances change.Therefore,it is a continuos process.
7. Budget helps in planning, co-ordination and control.
8. Different types of budgets are prepared by industries according to business requirements.
9. A budget acts as a business barometer.

10. Budget is usually prepared in the light of past experience.
11. Budget is a constant endeavor of the management.

Q.3. Calculate efficiency and capacity ratio from the following figures:

Budgeted production	80 units
Actual production	60 units
Standard time per units	8 hours
Actual hours worked	500

Ans -: Budgeted production = 80 units

Actual production = 60 units

Standard time per units = 8 hours

Total hours worked = 500

Standard hours for actual production = 60×8

= 480 hours

Budgeted hours = 80×8

= 640 hours

Effciency ratio $= \frac{\text{Standard hours for actual production}}{\text{actual hours worked}}$ ×100

$= \frac{400}{500}$ ×100

Capacity ratio $= \frac{\text{Actual hours worked}}{\text{Budgeted hours}}$ **×100**

$= \frac{500}{640}$ **×100**

=78.125%

Q.4. RST Limited is presently operating at 50% capacity and producing 30000 units. The entire output is sold at a price of rs.200 per unit. The cost structure at the 50% lavel of activity is an under:

Direct material	75 per unit
Direct wages	25 per unit
Variable overheads	25 per unit
Direct expenses	15 per unit
Factory expenses (25% fixed)	20 per unit
Selling and Distribution exp. (80% variable)	10 per unit
Office and Administrative exp. (100% fixed)	5 per unit

The company anticipates that the variable costs will go up by 10% and fixed costs will go up by 15%.

You are required to prepare an expanse budget, on the basic of marginal cost for the company at 50% and 60% level of activity and find out the profits at respective levels.

Ans : Expense budget of RST Ltd. for the per

	Per unit	30,000 units	36,000 units
		Amount	Amount

Sales	(A)	200.00	60,00,000	72,00,000
Less: Variable costs:- Direct material		82.50	24,75,000	29,70,000
Direct wages		27.50	8,25,000	9,90,000
Variable overrheads		27.50	8,25,000	9,90,000
Direct expenses		16.50	4,95,000	5,94,000
Variable factory expenses(75% of rs20 p.u)		16.50	4,95,000	5,94,000
Variable selling &Dis.exp (80% of rs 10 p.u)		8.80	2,64,000	3,16,800
Total variable cost	(B)	179.30	53,79,000	64,54,800
Contribution	(C) =(A-B)	20.70	6,21,000	7,45,200
Less fixed costs : Office and admin .Exp. (100%)			1,72,500	1,72,500
Fixed factrory exp (25%)			1,72,500	1,72,500
Fixed selling & Dist. Exp. (20%)			69,000	69,000
Total fixed costs	(D)		4,14,000	4,14,000
Profit	(C-D)		2,07,000	3,31,200

	82.50 27.50 27.50	24,75,000 8,25,000 8,25,000	29,70,000 9,90,900