Management Accounting
Prof. Anil K. Sharma
Department of Management Studies
Indian Institute of Technology, Roorkee
Lecture 13
Budget and Budgetary Control-II

Welcome students, so we are in the process of learning about the budgeting process, budget and budgetary controls and how the budgets help in the management decision-making in the practical sense in the business organizations, right? So in the previous class we discuss that budgets are master budgets have the two components one is the operating budget and another is the financial budget. The end result is the operating budget starts with the sales, forecasting and ends up with the preparing the budgeted profit and loss account.

In case of the financial budget, we start with the say cash budget and the end result is preparing the budgeted balance sheet, right? So, after learning about the operating budget and the end result that is by preparing the budgeted profit and loss account. Now, the second components of the master budget are the capital budget which has two sub components, cash budget and the budgeted balance sheet. When you prepare the capital budget, right? We prepare means say we acquire the different assets, fixed assets. We acquire land, plant, building, machinery everything and where these assets are shown?

These assets have to be finally recorded in the instrument called as the balance sheet. So when you purchase these assets you have to arrange the cash for that or you have to arrange the funds for that. So when you arrange the funds for that, funds flow in the organization and when we make the payment for acquiring the different fixed assets, found funds flow out of the organization, out of the business organization, right? So, that total account of the funds that is kept in the cash budget or in the cash flow statement. So this is purely the financial budget or means taking into consideration the financial aspects of the budget and we prepare the budget that is the cash budget and end result is the last and final statement is the budgeted balance sheet.

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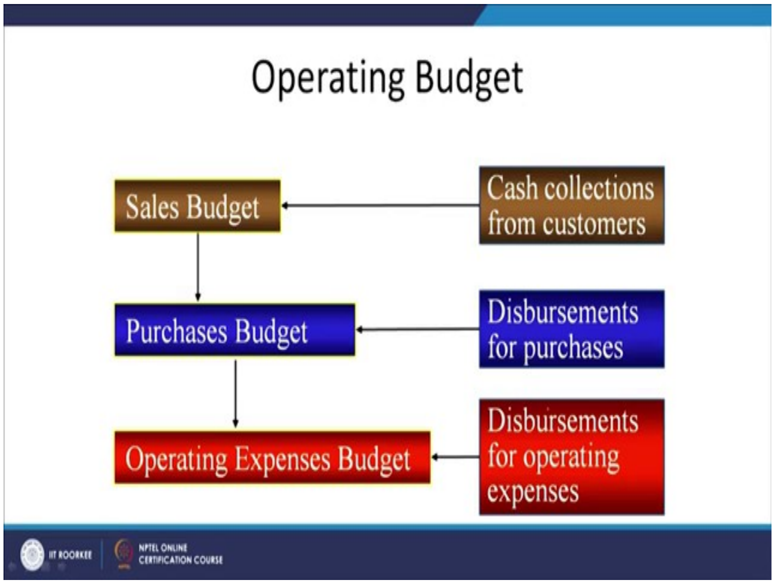

Now, we will discuss the operating budget little bit more in detail. When you talk about the operating budget, what you are talking about here is you have to prepare many sub budgets because master budget is basically a comprehensive document that is not possible to be prepared means so easily because it has very small-small components for which you need to make estimates and prepares the budgets. So, when you prepare the sales budget, when you prepare the sales budget, what is the basic premises for that sales budget?

It will have two components, one component will be that the forecasted sales, how much sales you want to attain or make in the market in the next three months from the January to March? Monthly we will prepare, in the month of January, we will sell this much, in the month of February, we will sell this much, in the month of March we will sell this much and sum total will become the total quarterly budget for that given quarter. So this is the one part which we are going to see that we are going to sell.

Now you will have to see that second component of the sales budget is that when you are going to sell it is very obvious that total production going to market you are selling in the market is not always on cash. Partly, it is sold on the cash, partly it is sold on credit. So you have to prepare now the second budget within the sales budget that how to deal with the sales collection budget. Means how we are going to collect those sales which are not cash but on credit, so we have to prepare that budget also. From the sales of January say for example, 60 percent sales were on cash 40 percent are on credit. So how much credit period we are giving to our say a potential buyers? Maybe a credit period of 1 month.

So it means credit sales made during the month of January, they will be collectible till the end of the February and similarly, you are selling in the February, the credit part will be collectible in the March. So we will have to see what would be our sales collection position? So that finally that information can be taken to the cash budget. So sales budget has the first part of the budgeting that is how much we want to sell and how much we want to sell on cash, how much we you want to sell on credit and finally how you are going to collect those sales which are sold on credit. So it is again a subcomponent sales and sales collection budget. So we will prepare in two parts. First, we will prepare the sales budget and then the sales collection budget. So the total collections will be known to us.

Then purchase budget, now, you can sell only if you manufacture and for manufacturing you need to buy the raw materials, because the raw material is the largest component in the total cost of say a goods to be produced ,it and means contains 50 to 60 percent component of the total cost of the product. So it means you have to prepare a comprehensive purchase budget. In this, as per the requirements monthly budgeted production requirements, you will prepare the detailed budgets that how much units we are going to produce in January? How much we are going to produce in February? How much we are going to produce in March? And for that how much purchases are required?

It may be possible that some of the material is already available with us in the godown. First, we will make use of that and once it is about to come to an end then we will go for the purchases, so we will have to make plans that over the period of 3 months on the monthly basis how much purchases we are going to make this is the one part of the purchase budget and second part of the process budget is the purchase disbursement budget, like sales budget when we are planning that whatever we are going to sell in the market everything is not going to be on cash sales or in the all sales are not going to be based on the cash.

We have to sell on the credit also because it is not possible to do the business all the times on cash. So you have to do the business on credit also, so if you are thinking of extending the credit to your buyers in the market or firm X is thinking of extending that credit, selling on credit to their buyer in the market, so the same firm, firm X has a right to expect the credit facility from its suppliers who gives a, who supplies the raw material for example Suzuki Motor Manufacturing cars, when Suzuki is manufacturing cars and then it is selling its cars through the dealers in the market, dealers network in the market, it may be possible that Suzuki is giving a say 30 days credit to its dealers that you take that truck load of cars you sell them in the market, you have to pay for a given truckload of the cars after the period of 30 days.

Partly, maybe half of the payment you have to make on cash, half of the means the stock you can take on the credit and that will be collectible in the next 30 days. Now Suzuki has also the right that if they are giving the credit in the market they can also expect the credit from their suppliers. Now what sort of the credit they can expect? Same, Maruti Suzuki requires a lot of different kinds of materials, they require steel, they require tyres, they require tubes, they require window panes, they require rubber materials, they require so many other things and different suppliers are there.

So they can enter into an agreement that we will have this much of purchase from you on say these 3 months for every month and our payment terms will be this much, say 20 percent will buy from you on cash remaining 80 percent purchases will be on credit and the payment of those say credit purchases will be made 30 days hence from the date of purchase.

So both ways, means when the firms give the credit they have the right to expect the credit from the market, so in the balance sheet you might have seen two important things, accounts receivables and the accounts payable. Accounts receivables are the credit sales which will be collected at some future date, accounts payable are the credit means the purchases on credit for which the payment will be made at the some future date, right? So you have to prepare the two components, one is the purchase budget and the purchase disbursement budget.

So we get to know that whatever we are going to purchase in the month of January, we are not required to make all the payment for that material in the month of January itself. You have to arrange one part of that say 20 percent of the purchases which you have to pay in cash for remaining 80 percent you will get another 30 days period of time, so you can arrange the funds during that period of time and make the payment.

Then is the third one is operating expenses budget. Apart from the material as I discussed earlier, apart from inventory, apart from the material, you have to incur so many other operating expenses. For example, labor expenses are there, your say factory expenses are there, your a power expenses are there, your water expenses are there, your say other inputs say oils, lubricants expenses are there so means these all are called as the operating expenses, partly which are fixed and partly which are variable, right. So in this operating expenses we have to prepare the budget in detail.

For example, when you talk about the power, normally the power supply companies or the boards, they give our actual credit or maybe you call it as the automatic credit of 1 month, because when we buy electricity, we do not pay every day in the evening, we buy the electricity for 30 days and after 30 days we get the bill from the company and we make the payments. So it means it is actual credit of 30 days which is available. So we should not care, we should not worry about from where the electricity bill means the funds for the electricity bill will come.

Similarly you talk about the employees, maybe the workers, they are the blue collar employees or they are the white-collar employees. We enjoy their services and we pay them at to the period of after the period of 30 days. So it is automatic spontaneous credit is available from such sources for which you have not to worry about at least for a period of 30 days and after 30 days you have to make the payment so we should know in advance that for the month of January how much operating expenses are payable in the month of January? How much can be extended to the next month? Same is the case with the February and March, so we have to meticulously prepare the sub-budgets and sub-budget documents for each and everything.

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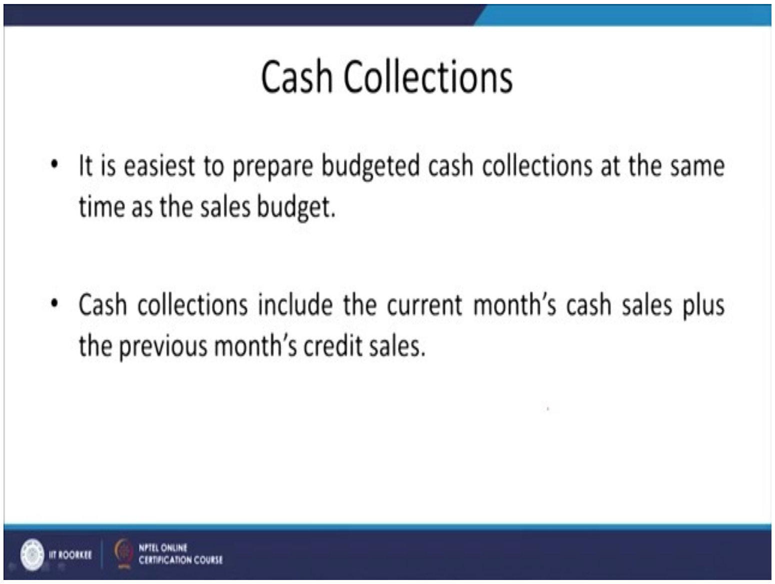

Then we talk about the cash collection budget, as I am saying that sales have to be collected, right? So it is written here, it is easiest to prepare the budgeted cash collections at the same time as the sales budget because we know it, we are selling today and we are going to give the 30 days credit period so the credit page sales which we are making in 1 month they are collectible are collectible after 30 days in the next month.

Cash collection includes the current months cash and the sales of plus previous months credit sales because in this month also we are going to sell partly on cash. So, it means the total cash will come in the month of January will be cash from the cash sales and the cash from the December month sales which will be collectible in the month of January. So we will have to find out what would be our cash collection position or the sales collection position at the month of January? So we will know by preparing that say cash collections budget.

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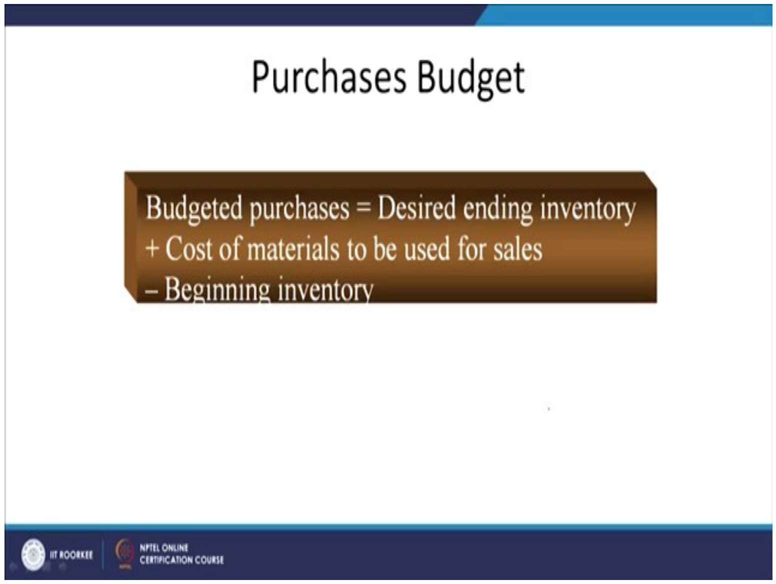

Similarly, the purchase budget, when you prepare the purchase budget, we apply this formula budgeted purchases. How much you are going to plan or you are going to purchase that is called as the budgeted purchases or anticipated purchases and how you can calculate that desired ending inventory, desired ending inventory plus cost of raw material to be used for sales minus beginning inventory, minus beginning inventory. So, desired ending inventory for example, you want to keep 100 units at the end of the month, which will be used the next month.

So number 1, you need that 100 units to be kept in the stock all the times so that plant always keeps on working even when there are the minor interruptions in the supply of material from suppliers may be because of any reasons it is a supply chain reason or maybe other reason in that case, you have to means continue the show, the process must be going on. So, we keep always for the safety purposes, we keep the safety stock. So how much we want to keep that?

That will have to work out, plus how much we want to use the material for the current period? For example, we (will) now need 500 units for say manufacturing the production in the current period in the month of January. So, how much is total now? 100 to be kept as a closing stock, 500 to be used in the current month, your total requirement is of the 600 units of raw material. Now, as we are going to save some material for the future.

Similarly, in the previous month also, we must have saved some material for the current months requirements right, for the current months requirements and in that case, we will subtract that, that our requirement for the current month is 600 units. Our opening inventory is 100 units. So actually how much we are going to buy? 500 units of the material and how much is a per-unit cost? So we know that purchase budget will be ready. We want to know the amount of purchases and that will be possible to be known by preparing the purchase budget.

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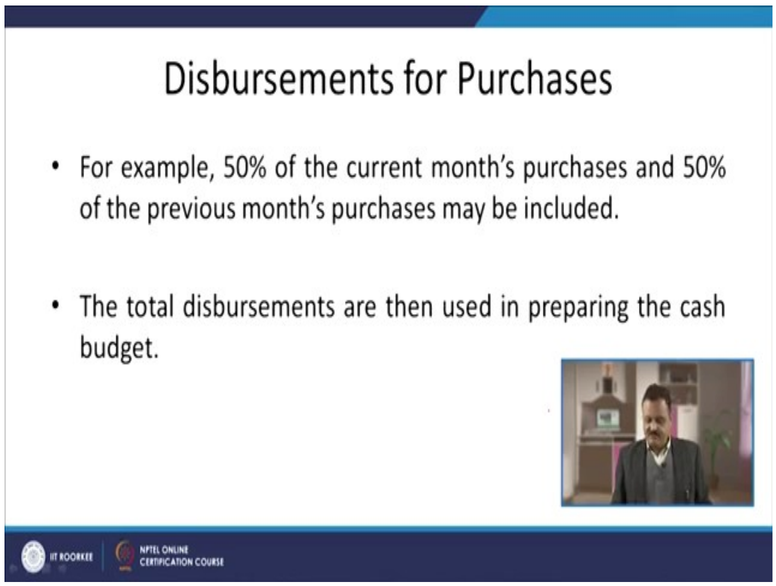

Then is the disbursement of purchases. Now, it is written here read it, for example, 50 percent of the current months purchases and 50 percent of the previous months purchases may be included. So, means we are going to pay our say terms and conditions with the suppliers are that whatever the supplies they make to the end user or the firm who is manufacturing the finished product, 50 percent of the payment will be made in the current month and 50 percent will be postponed to the next month. So, it means you have to arrange the cash only for the 50 percent of the payment of the current month.

But the cash for the 50 percent of the payments of the previous months is also required, so in total you have to arrange the 100 percent cash that is equivalent to the 1 month's purchase requirements. Then total disbursements are then used in preparing the cash budget. So in the cash budget, total sales collection information will also go, total say purchase expenses information will also go, so sales information we put it in the credits side say purchase information you put in the debit side and finally we balance them and arrive at the gross profit.

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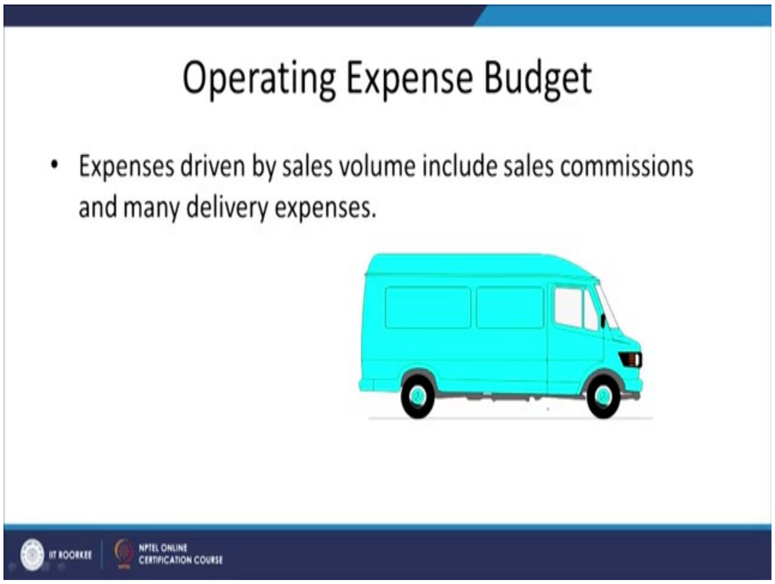

Now, operating expenses budget, expenses driven by sales volume include sales commissions and many delivery expenses, operating expenses budget, right operating expenses are say manufacturing expenses apart from the material and then administrative expenses on account of the office rent in terms of the stationary, in terms of the salaries of employees and then selling and distribution a expenses, marketing expenses, advertising expenses, distribution expenses. So all these expenses will be covered under the operating expenses. So sum total of the raw material budget and operating expenses budget will give you the total operating budget.

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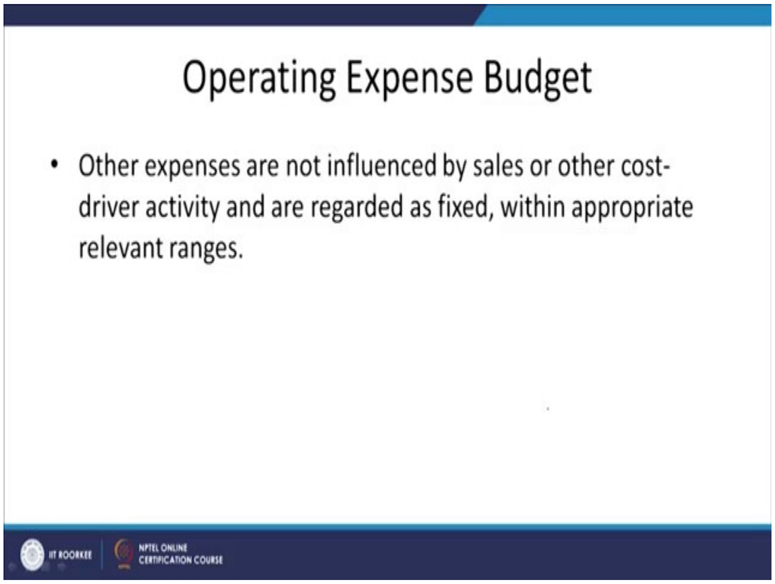

Now other expenses are not influenced by the sales or other say cost-driver activity and are regarded as a fixed within appropriate relevant of ranges. So it means when you talk about the operating expenses, you have to broadly divide them into two parts, one is the fixed expenses other is the variable expenses. Fixed expenses remain fixed up to a certain level of output or the production. For example, office or the factory premises are is there and at given level of the factory is sufficient for the given level of the production and sales, but we want to increase the sales you have to maybe add up a new factory or maybe you have to add up the new capacity.

So it means then your fixed expenses will also be going up and will be adding further. So you have to means estimate that, that how much part is fixed. Similarly you talk about the employees. There are the permanent employees who work in the offices of the companies and they are the permanent employees. So you purchase and sell and manufacture and sell in the market a given amount but your means if you sell more your permanent employees are going to remain there if you sell less your permanent employees are going to be there.

So these are the fixed expenses. So you have to think about what are my fixed expenses? You have no control upon them, so it means we have to be careful to make maximum use of those fixed expenses and the variable expenses they depend upon our manufacturing and selling targets, more you want to produce and sell more you have to buy the raw material and incur the other variable expenses and lets you want to manufacture and sell accordingly, you have to buy the raw material and incur the other operating expenses, right? So operating expenses budget has to be prepared for both fixed and the variable expenses.

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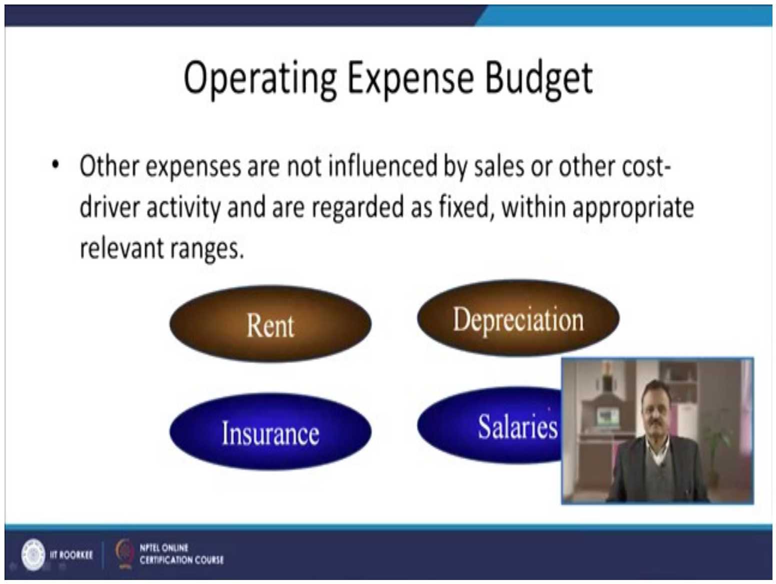

Now here are some examples of the operating expenses which are considered as the fixed expenses. Rent, rent of the of factory or the office premises or anything, it is a fixed. Depreciation because depreciation is that part of the fixed assets which is say at the cost because of the use of the fixed assets for that given period of time. Insurance, it is the cost that for ensuring your factory your office, for your plant, machinery everything you have to pay the insurance premium. So once that premium is paid there is a fixed amount now you make use of that building, that plant, that factory or you do not make use of that it is up to you.

Similarly salaries of the employees, I just told you that the salaries of the employees are the other fixed expenses. If you produce more and you sell more in the market, you are making the maximum use of the employees and their contributions in the organizations but if you are not able to work up to that level, it means your fixed expenses will go up and that will impact your profitability.

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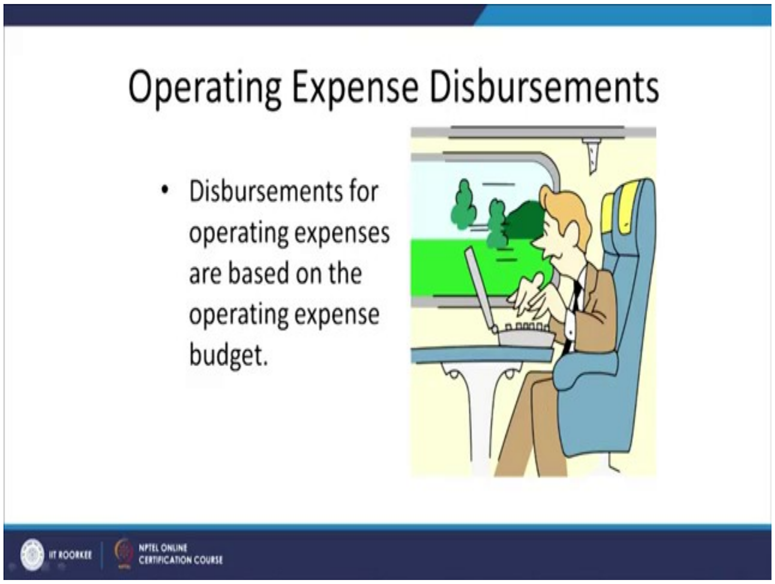

Operating expenses disbursements, now in the operating expenses disbursements also we have to think about how these operating expenses have to be paid for. As I told you salaries, water bills, electricity bills, they there we get the spontaneous credit of 30 days. You need not to worry for those payments. You need not to worry for arranging the cash for those payments. The expenses on account of this your rent, your say salaries you have for the month of January you are going to pay somewhere in the month of February. So for the whole of the month of January, you do not need to arrange the cash.

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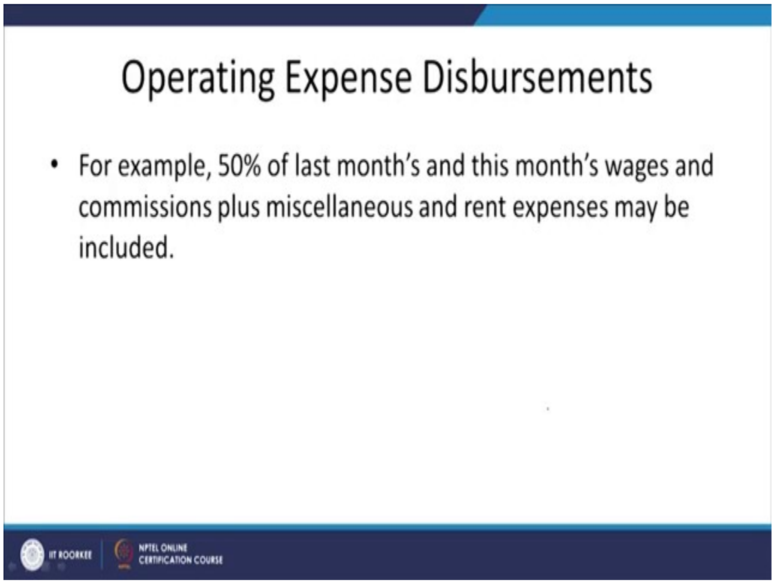

Operating expenses disbursements, now say 50 percent of last months and this months wages and commissions plus miscellaneous and rent expenses may be included. So what are the terms of paying the operating expenses? How those? Because fix expenses remain paid already in advance or maybe they have to be paid at a given intervals, but the variable expenses change depending upon the say terms and conditions of the various inputs coming from the different suppliers we will have to go for planning for the disbursements of the variable expenses and accordingly we have to arrange the cash for that.

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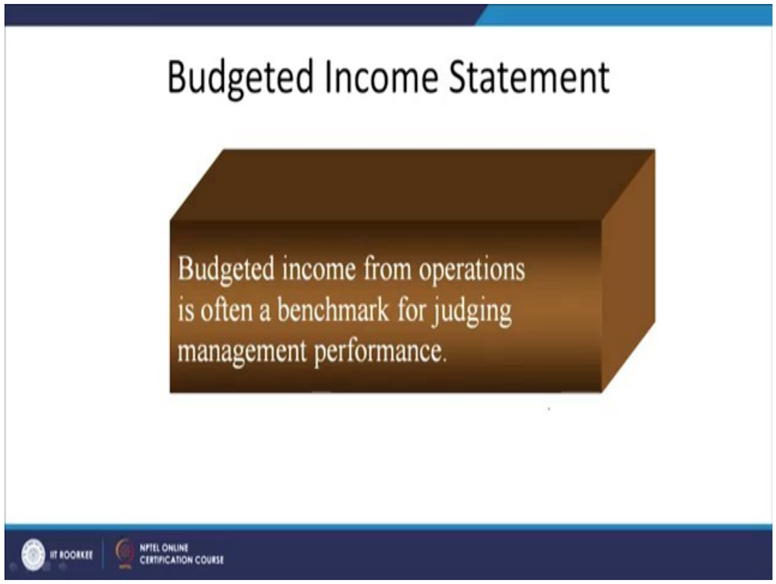

So we have to prepare the budget in advance for that thing also and end result is going to be what? That is the budgeted income statement.

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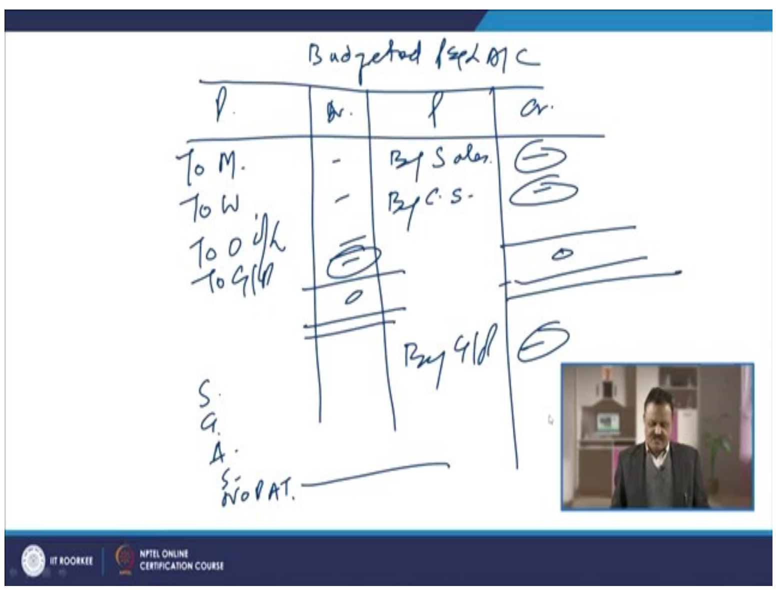

Operating budget as I discuss already with you that we are going to prepare the operating say this budget that is the budgeted profit and loss account, we had prepared the budget for everything that is the sales budget, sales collection budget, closing stock budget and for having this much level of sales and closing stock these are the expenses required on account of material wages overheads, then the fixed expenses like salaries, then the rent, depreciation all these will come on the debit side of the profit and loss account all these your sales and income information will come on the credit side and we will try to balance both the sides.

So if the sales credit side is bigger than the debit side, it means if the sales are more than the cost of the goods to be sold, then certainly the end result is the gross profit and finally the net profit before tax and after tax, but if it is vice versa that your debit side is bigger than the credit side then the firm is in the state of loss. So we want to know it in advance that how to put the firm always in the state of profit. For attaining the given level of profit how much sales are required to be made and for achieving that level of sales how much operating expenses are required to be incurred.

So end result will be in terms of a consolidated statement, which will include all the incomes of the one side, all the expenses on the other side and the balance will be either the profit or the loss which we want to know in advance. So this is the purpose of the operating budget and by preparing the operating budget we reach up to the say level or the same statement, which is called as the say as a result of preparing the operating budgets.

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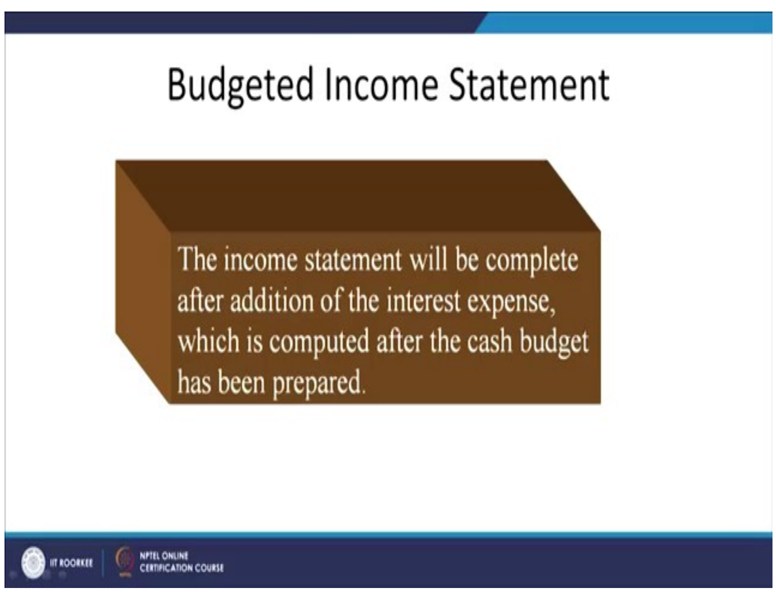

The income statement will be complete after addition of the interest expense which is compounded after the cash budget has been prepared. So it means when you are preparing the budgeted income statement, budgeted income statement for operations is offer a benchmark for judging the management performance. So it means it includes two kinds of expenses, operating expenses and financial expenses.

Operating expenses are on account of raw material, wages, salaries, stationary, depreciation all these are operating expenses and apart from that we have to incurred the financial expenses also, you might have seen that when the firms borrow the funds they service those funds, they pay those funds over a period of time and the firms pay interest on those borrowed funds which is called as the financial expense.

So we will have to pay for those financial expenses also and sum total is all operating expenses variables will be only in the trading account in the tricks will be in the profit and loss account and apart from the fixed operating expenses in the profit and loss account we will have to include the information about the financial expenses that is the interest on borrowings and then that will give you the total expenditure statement and that total expenditure in terms of operating and financial cost has to be compared with the sales expected to be achieved and the net result will be the net profit before tax and net profit after tax. So this is the say final end result of preparing the operating budgets.

After this we will be talking about that what is included in the financial budgets? How to prepare the financial budgets? And what is ultimate purpose of preparing the financial budget and how they support the operating budgets? So we will be talking in the next part that is about the financial budgets and as I have discussed with you already that the financial budget includes two that is the cash budget and the budgeted balance sheet.

So we will be preparing the cash budget also in detail for the different organizations will be preparing the budgeted balance sheets also and that way we will be able to complete the entire process of preparing the master budgets.

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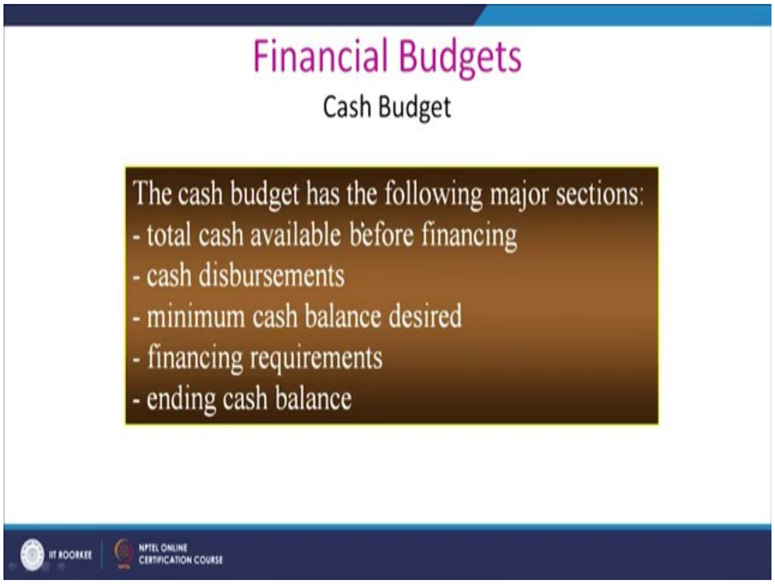

So Financial budgets, now after the operating budget, financial budgets and in the first part of the financial budget is the cash budget. So what is the cash budget? Now it is written here, the cash budget has the following major sections. What are these major sections? Total cash available before financing because they are the different sources of finance with the firms, internal sources of finance, external sources of finance.

Internal sources of finance are basically from the reserves and surpluses which are means made up of the retained earnings which is not distributed as a dividend to the shareholders that part of the profit is reinvested back in the business added up in the capital of the firm, so that much cash is already available with us and for the remaining cash requirements, then we will have to think about from where the say remaining cash will come.

So if you have prepared the cash budget in advance, so we know it in advance that for the month of January, how much is going to be the total cash requirement, how much cash will be able to generate internally from the internal operations and how much cash will be required requiring to borrow from different sources. If this information is available with us in advance then what is the problem?

Means just for the requirement of the cash or the financial requirements, the operations of the firm will not be affected, then cash disbursements. How much cash is available? How much disbursements we have to make and what is the minimum cash balance which we want to retain also? How much we have? How much we have to pay, how much we have in the beginning of January?

How much we want to pay to the different stakeholders in the month of January itself and how much we want to keep as a closing balance of cash in the end of the month of January that all these three things are required to be assessed and then based upon this information, your financing requirements will be worked out. Based upon this assessment your financing requirements will be worked out and now we will see that after exhausting or maybe requiring the full amount of cash, which is required in the month of January, once we have known already that how much cash is already with us.

How much is required? So gap can be easily plugged, can be fulfilled by borrowing the funds from the market from the external sources. We can borrow from banks, we can borrow from the other sources, by way of commercial paper, by way of the factoring and other kind of things. So it means if we know in advance what is going to be the requirement in the time to come then certainly we will be in a more comfortable position and now you look at the situation where for example the cash budget is not available.

So we do not know how much we are going to pay in this month and how much we are going to receive this month. What is the position of the our total receipts, what is the position of the total payments and what is going to be the net result of the cash and when there is a shortage of the cash at that time if you go out and try to arrange the cash, it may not be possible. So budgets are the pre-estimates or the road is the road maps on which we have to walk and ending cash balance, how much we want to keep, like inventory same is the cash.

Inventory is the inventory of material and cash is an inventory of cash, but the (means) performance is same but the process is same that there we see how much is available, how much we need to arrange from the market and how much we want to keep as the closing balance. So the cash budget the requirement is very much clear is very much obvious.

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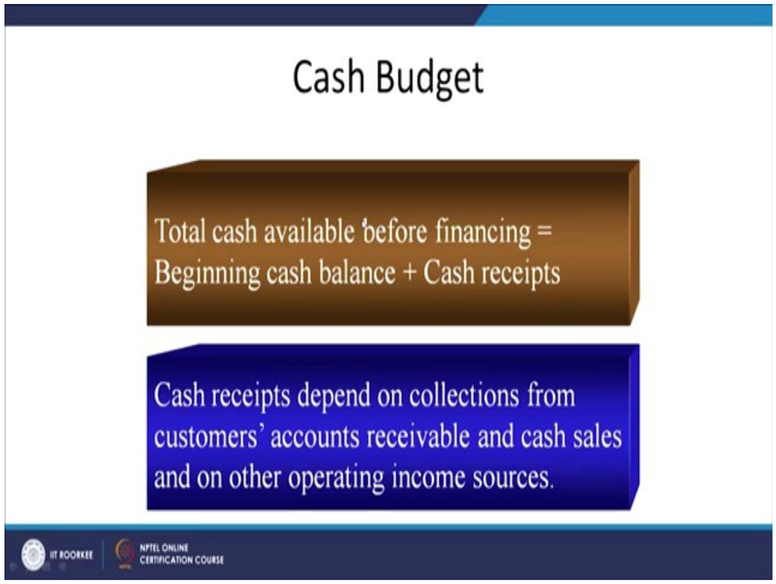

So total cash available before financing, total cash available before financing is equal to beginning cash balance plus cash receipts. In this month of January how much cash we already have with us in our bank account? And how much a cash receipts for the previous months sales? Credit sales we are going to have will be knowing that by preparing the cash budget. Then cash receipts depend on collections from the customer accounts receivables and cash is and on the other operating income sources.

So means total resources of the cash have to be identified so that we want to know is there going to be a shortfall of the cash in the month of January or we are going to be cash surplus in the month of January these both things have to be taken into account and once we know all the things in advance the life becomes easy.

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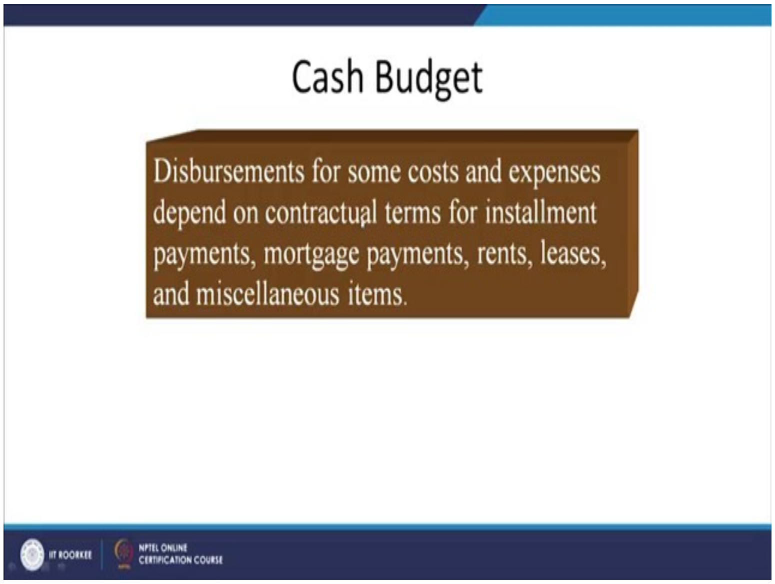

Disbursement for some cost and expenses depend on contractual terms for installments, payments, mortgage payments, rents, leases and miscellaneous items. So when we have to make the payments for raw material? What is a credit terms for the salaries and wages? What are the credit terms for the water and power, what are the credit terms for similarly the leases, mortgage payments, interest payments, what are the terms and conditions of these different suppliers? We will have to walk accordingly and include all these as per these terms and conditions we prepare the cash budget.

Other disbursements include outlays for fixed assets, long-term investments, dividends and the like. So it means total payments we have to assess in advance to be made in the month of January, total receipts we have to assess in advance to be received in the month of January and we have to find try to find out the net balance.

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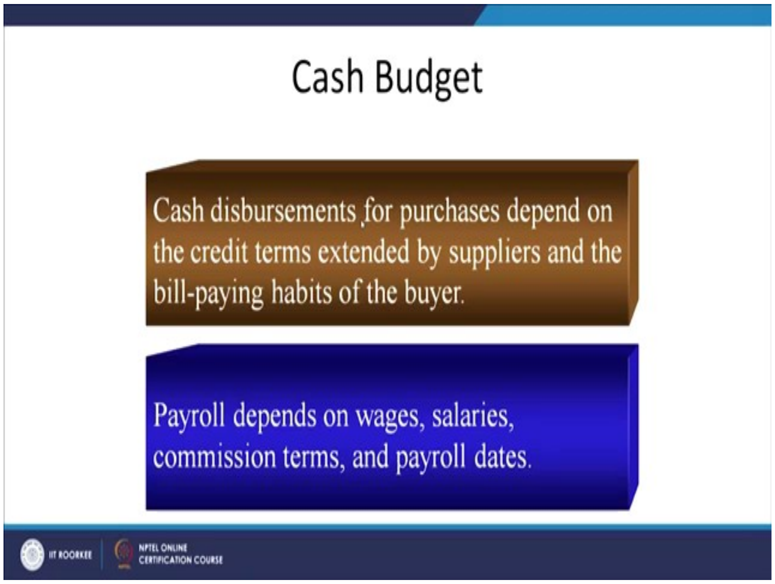

Now, cash budget that is a cash disbursements for the purchases depend on the credit terms extended by the suppliers and bill payment habits of the buyers. So it means will have to say that we want to pay on time when the due date comes, we do not to delay the payment and that due date will come as per the terms given by the suppliers. So it means again in the cash budget, you know, how much is required? How much is there?

How much is going to be used and how much is going to be the closing balance? Payrolls depend on the wages, salaries, commission terms and payroll dates. We know it that we get a virtual credit of 30 days. So we need not to worry for the month of January the payment of the salary and wages will be done in the month of February.

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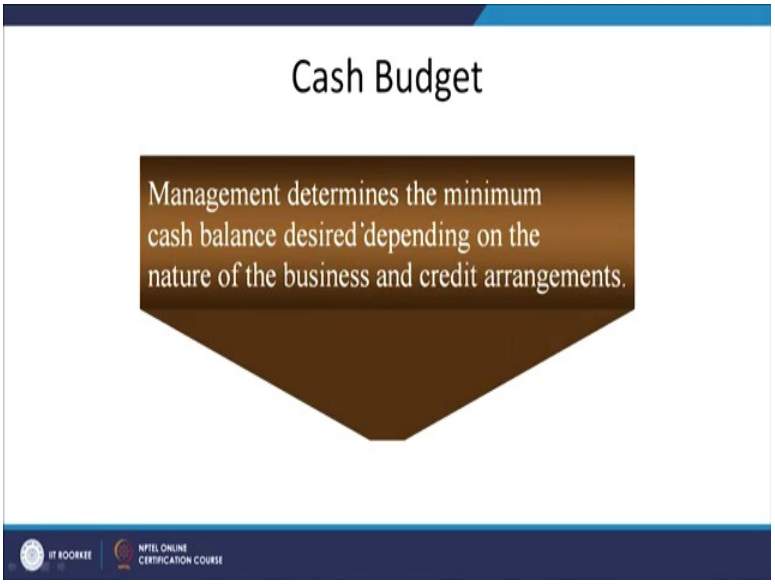

So no cash is required for this purpose and finally the cash budget is management determines the minimum cash balance desired depending on the nature of the business and the credit requirements. We always like inventory we keep the safety stock of the cash also, we have to make sure that that much of the cash will always be there minimum cash balance will always be there and then other cash is required for the day-to-day monthly expenses. So total cash requirements we have to work out and it's possible by preparing the cash budget.

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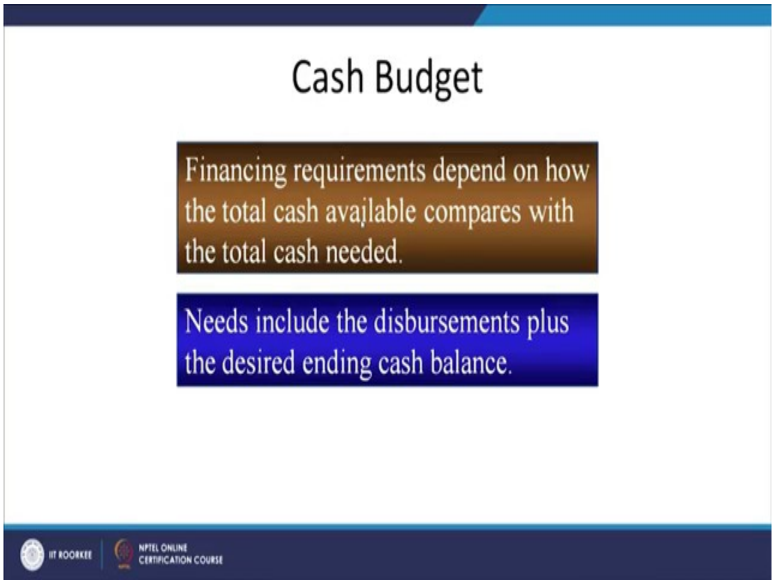

Next thing is financing requirements depend on how the total cash available compares with the total cash needed. Means you need how much? You need 10,000 rupees. How much you have? 5000 rupees so, you know in advance we need to borrow 5,000 rupees. So you will be able to identify the source also from where we will borrow when we will borrow, how much will have to pay the interest on that and what is the easiest most comfortable source of borrowing the funds from the different sources?

So it means everything is prepared in advance and we have maintained a proper liquidity state in the firm, so we are not going to stop the operations of the firm just because of the liquidity or just because of the lack of availability of the cash. We know it that we have prepared a comprehensive cash budget for the month of January and we know in advance we are going to be in this state of deficit or in the state of surplus. Needs include the disbursements plus the desired ending cash balance.

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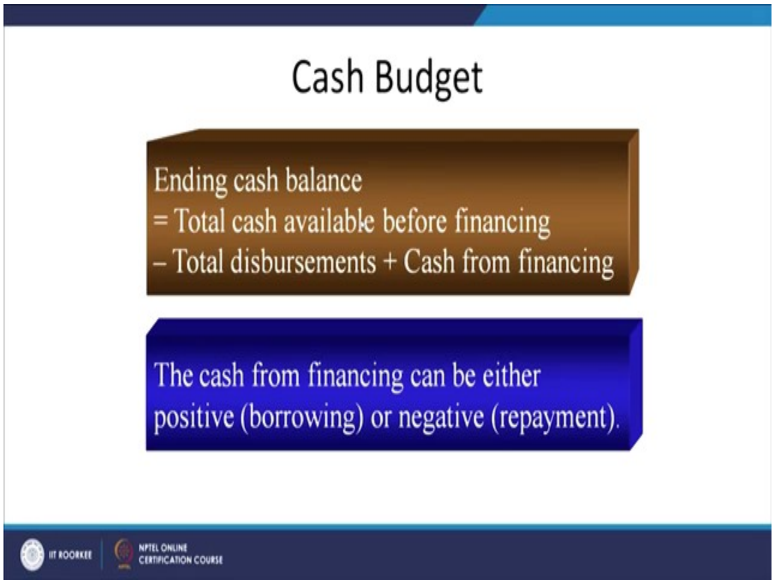

So for calculating the ending cash balance, what you have to do here is, ending cash balance is equal to the total cash available before financing minus the total disbursements, for disbursements we want to make in the month of January plus cash from financing. So how much is available? How much has to be borrowed and how much has to be paid? That is clearly known to us and hence, the requirement of the cash budget is very clear. It tells us also how facilitating and useful it is to prepare the cash budget and to smoothly run the affairs of the organization that is really the important requirement.

The cash from financing can be either positive or negative means because we have to know it that are we going to be a surplus cash surplus company in the month of January or cash deficit company and when the payments are going to be more than the receipts, certainly we need to borrow cash, but it can be by vice versa also. There your receipts are going to be more than the payments you are going to make, so need not to worry about the cash you have not to borrow anything in terms of the cash.

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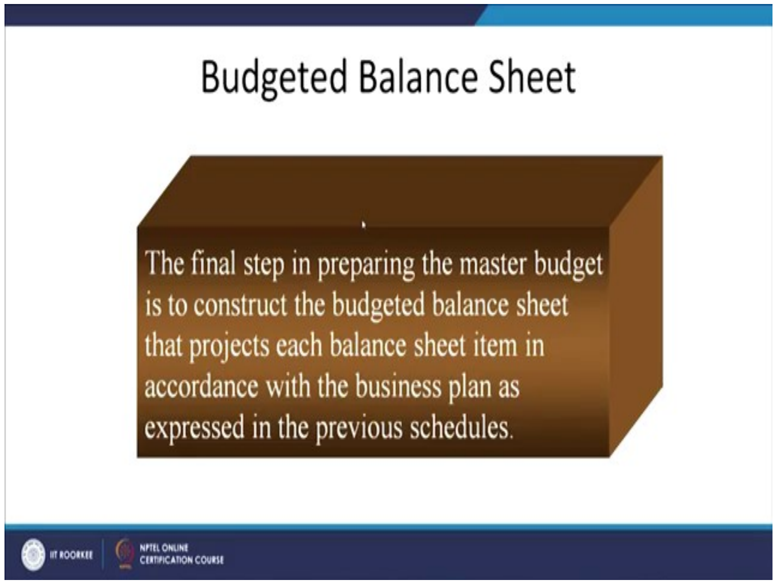

Now finally we talk about something which is the budgeted balance sheet that after that cash flow statement is ready cash budget is ready, our operating budget is ready, then what is now the final thing to be done? The end result of the financial budget is the budgeted balance sheet. When you prepare the budgeted balance sheet, what we do in the budgeted balance sheet? We will have to now say prepare this balance sheet. So like the profit and loss account, here we are preparing the budgeted balance sheet.

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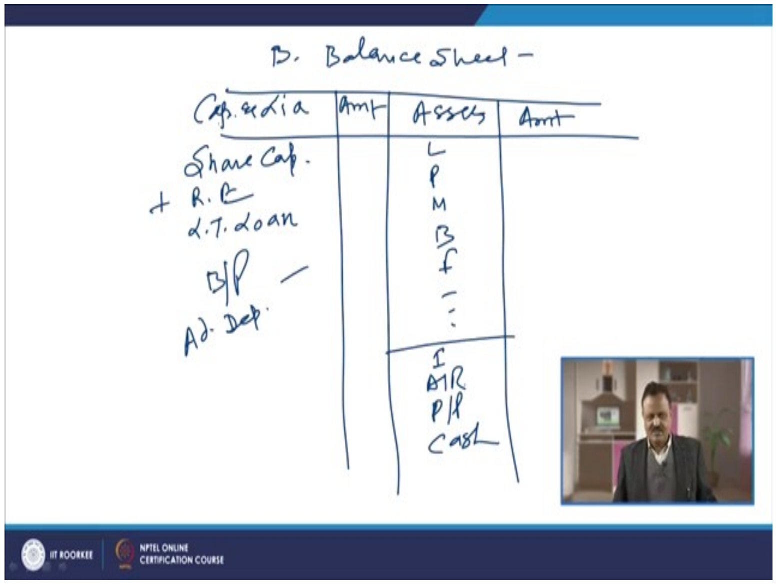

You must be knowing the budgeted balance sheet and the proforma of the budgeted balance sheet. So it means, in this case you prepare the balance sheet here, that is the Budgeted balance sheet and in this side we are taking the capital and liabilities. Here it is the amount, here it is the assets and it is the amount. You need to put here land, plant, machinery, buildings, furniture and the other fixed assets. Then you will have to say assess the current assets like inventory then is your accounts receivables then is your prepaid expenses and then you have to go for the cash keeping the cash as cash.

So sum total of this will be helping us to prepare the balance sheet and now total requirements which we have shown here how much we require for land, plant, building, machinery, furniture and other fixed assets. How much we need to invest in terms of inventory, credit sales, prepaid expenses and cash. Now, you have to arrange the source from where the funds will come.

First one is the share capital, maybe to say promoters contribution or it is coming from the other say other shareholders, maybe if it is a large company, companies come out with the IPOs and through IPOs the sell the stocks in the market and then people subscribe to the stocks so that finally becomes a share capital, plus retained earnings.

When you are preparing the profit and loss account, we are working out the profit now there profit has to be used partly their profit is used for paying the dividends and partly is reinvested back in the business. So that becomes the reserves and surplus in the form of the retained earnings. Once their share capital is known and this side is still very big, now you have to go for the second source of financing and that is in terms of the long-term loans, or borrowing from the market.

So this is sum total source, long-term loans to be borrowed from the market and then some funds will be available in the form of the say current liabilities or spontaneous finance say, for example, the bills payable. Now, you have purchased on credit and what is the requirement of the January? We are not going to pay that whole amount in the month of January. So remaining amount which will be paid in the month of every bill become as a bill payable, this is called as a spontaneous source of finance.

Sometimes we get the advanced deposits from the buyers. So when they are going to pay us in advance after that we are going to deliver the product. So we are going to use their cash and going to manufacture the product by using their cash and finally say delivering the goods and services to them. So this is the another source.

So this side we have to know in advance, prepare the monthly balance sheet or maybe the quarterly balance sheet showing it that what will be the balance sheet position at the end of 3 months taking into consideration the requirement of fixed assets, requirement of current assets and then working out in advance how much funds will be available from the total liabilities plus capital that is liabilities long-term liabilities, borrowing from the long-term sources, current liabilities in terms of the bills payable, advanced deposits and so many other things and then the share capital which is internal source of finance.

So we know it in advance that what is going to be the financial position of the company at the end of the 3 months or at the end of the given quarter. So this is till now you must be I think I hope that you are clear about that what is the role of the budgetary process. We prepare the budgeted profit and loss account and the budgeted balance sheet. Now next part will be talking about is that for say preparing the profit and loss account and the operating budget and the final statement of the prophecy operating budget that is the profit and loss account we need to have the sales.

So, how to go for the sales budget? What are the important factors to be born in mind for estimating the required amount of the sales? And what is the role of sales forecasting market and demand survey, market and demand analysis, this all is required so that you get to know the total amount of the sales you want to attain right, this all we will discuss in the next class. Thank you very much.