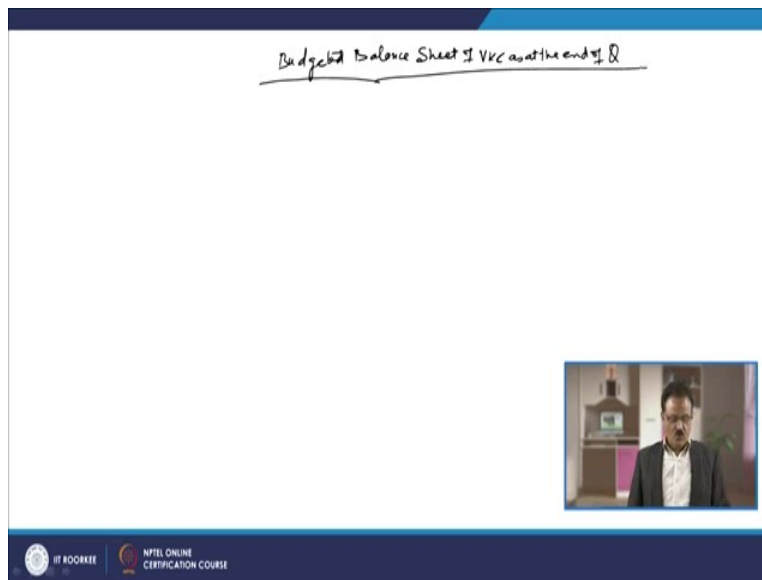


Management Accounting
Professor Anil K. Sharma
Department of Management Studies
Indian Institute of Technology, Roorkee
Module 5: Management Accounting
Lecture 23: A Master Budget – A Mini Case III

Welcome students, So we are in the process of preparing the cash budget for the Victoria Kite Company and in the previous class I completed larger part of this budget including the income statement and now in this class we will prepare the Budgeted balance Sheet and discuss some other important concepts which are required or which are important for the preparation of the balance sheet of any company may be it is quarterly balance sheet or its annual balance sheet. We will have to discuss that in detail. So, let us prepare now the balance sheet for this company this Victoria Kite Company for the quarter.

(Refer Slide Time: 1:05)



So again I write it, I am I am preparing it in the particular format as we prepared the income statement in the vertical format not in the T format. Same I will be preparing now the balance sheet also in the vertical format so this is the Budgeted balance Sheet, balance Sheet of Victoria Kite Company VKC as at the end of quarter. So it is the Budgeted balance Sheet of Victoria Kite Company as at the end of the quarter. So this balance sheet we are going to prepare now. And this is again as I told you in the vertical format so we know it that in the case of the first case as

we discussed that the balance sheet has two sides one is the liabilities and capital and other is asset.

And at the end of the day or at the end of the quarter or at the end of the year both the sides must be equal. So, if you talk about the income statement and the balance sheet. The basic difference between the two statements is income statement or the profit and loss account helps us to know the actual or the Budgeted profit of the company for the period – maybe it is a quarter, it is a month, it is a week or it is a year. For that one full period of time may be the maximum period can be one year or may be the period say of any one year or any period of 12 months.


So that it is going to be the total amount that a period of 12 months has to be the maximum period for preparing these statements that is the income statement and the balance sheet. So you prepare the annual statements that is the annual income statement and the annual balance sheet. So in that case, the difference between the income statement and the balance sheet is income statement or the profit and loss account helps us to know the net results of the business in terms of its profit or loss for a period of 12 months. We did the business for a period of 12 months if it is one full year I am talking about; in this case we are talking about quarterly results.

So what was the performance of the company? We had sales, we had some say cost of sales, some other operating expenses, after adjusting all this we were means able to find out whether we have ended up with the Net Income or the Net Loss or may be the profit or the loss. So we are having the surplus or we are having the deficit so in that case the income statement is helping us to know the state of profit or loss or the Net Income or the Net Loss means earned by the business or incurred by the business at the end of this quarter that is the quarter for three months from January to March. And when you sum it up with the 4 quarters results when you sum up you can find out the results of the business of operations for a period of 12 months or for the one full year.

(Refer Slide Time: 4:06)

Budgeted Income Statement of VKC for Q3

Sales	\$ 1,75,000 ✓
less C.O.G.S	\$ 87,500
Gross Profit/Margin	\$ 87,500 ✓
less Operating Exp:	
Rent	17,250 (16500+750)
Wages & Salaries	45,000 ✓
Dep	750 ✓
Insurance	375 ✓
M.S.	7500 ✓
Total Inv. Exp.	70,825 ✓
Net Income from op.	16,675 ✓
less Int. exp.	808
Net Income/Profit	16,367




NPTEL ONLINE CERTIFICATION COURSE

That is why the title of income statement I have written here is if you look at the previous income budgeted income statement of VKC for the quarter for the quarter means this result but we found out that the profit is that is 16,367 dollars that is the net result and Net Income at the end of the quarter. Right, for the period of this is the net result for the period of three months.

(Refer Slide Time: 4:26)

Budgeted Balance Sheet of VKC as at the end of Q3

Assets	
fixed assets	



NPTEL ONLINE CERTIFICATION COURSE

But when you talk about the balance sheet I am writing here the title Budgeted balance Sheet of VKC as at the end of the quarter. So it means balance sheet depicts the picture the financial position of the business only for the last day of that time period whether it is a week, it is a month, it is a quarter or it is a year. Only for one day may be last date of this quarter is 31st March. Right, so on 30th March, the balance sheet position may be imbalanced or on the 1st March again the liabilities and assets may not match. But on the last date of the quarter that if you are preparing the quarterly balance sheet on that last date of the quarter the balance the balance sheet must be balance the state.

Similarly, at the end of the year, we have to show that on the last day of the year, if it is 31st March, if it is 31st December or any other year or at the end of period of 12 months on that last day of the year or that last day of the operating period of 12 months, the balance sheet, must be in the state of balance. All the assets must be equal to the liabilities plus capital or the liabilities plus capital must be equal to the assets. So balance sheet depicts a picture of the financial position of the business for only one day and that is the last day of that period for which the balance sheet is being prepared.

Whereas profit and loss account or the income statement, depicts a picture of state of profit or loss of the firm for that period of time for which that income statement is being prepared. So there is basic difference in the titles. One is for the period and other is balance sheet is at the end of that is as on or as at the last day of the period whether it is quarter, month, week or the year. So this is the basic difference that you have to know. Now, we can prepare this balance sheet in any manner, you can put the liabilities or capital on the top then you take the assets and then you can find out the difference or if there is any difference because normally, there is no difference in the balance sheet both the sides assets are equal to liabilities plus capital.

So this is called as the balance sheet because both the sides are balance both the say balances are balanced, assets are equal to the liabilities plus capital. So you can put may be the liabilities and capital on the top or assets on the top and then the second item will come after that so when you total of all the assets and you total of the all the liabilities plus capital that balances means both the balances must be equal to each other. If they are equal to each other than you can say that the financial position of the business is balanced on that last day of that particular period. So, I will

start preparing this sheet, balance sheet by taking the assets on the top so we will put here the assets. Right so here are the assets.

And we will start with the now it can be prepared in two orders, either in the order of permanence or in the order of liquidity. Order of permanence when you talk about it means if you taking the assets on the top then we will take the long term assets fixed assets on the top and then we will keep on reducing the liquidity of the assets and the most current assets that is the cash that will come in the end, right? If you are preparing in the order of liquidity than most liquid asset, cash will come on the top immediately the first item after assets or in the assets column and the fix assets or the long terms assets will be last item in the balance sheet.

Similarly, in case of the liabilities, if you are preparing in the order of permanence than the capital will come on the top, that is the equity capital will come on the top of the liabilities column and followed by the last most liquid liability or may be the most current liability that will come in the end, right but if it is in the order of say liquidity than the most liquid most current liability will come on the top and then the last one is the equity capital will come in the end. So whatever order you follow that is correct. There is no problem in that. But whatever order you will follow in case of the assets whether that is the order of permanence or the order of liquidity same order should be followed in case of the liabilities also.

So, we are preparing this balance sheet, by taking the assets first and starting with the fixed assets because we are preparing it in the order of permanence. So in the order of permanence when you are preparing it we are starting with the fixed assets. So what are the fixed assets here? Fixed assets, so this balance sheet you will prepare by taking the balances of the previous balance sheet.

(Refer Slide Time: 8:53)

Master Budget - Mini case

Victoria Real Computers is a small Melbourne firm that sells, tests and fits PCs under a master budget for the year from month 1. The firm has a monthly budget for the year from month 1, 2005. It desires an ending inventory credit balance of \$2,000 each month. Sales are forecasted at an average, relatively selling price of \$20 per unit. In January, Victoria Real is beginning just in time (JIT) and just before suppliers, which means the production time is almost zero.

On January 1, production will start and activity reaches \$5,000, also which has production will start time. Production cost average \$8 per unit. Production time are given week are paid in full during the following month. All sales are on credit, payable within 30 days, but suppliers have three days credit. Cash sales are reflected in the current month, 50% in the next month, and 40% in the month thereafter. Bad debts are negligible.

Monthly operating expenses are as follows:

Wages and salaries	\$25,000
Overhead expense	125
Depreciation	200
Administrations	\$3,000
Rent	\$200 (month + 10% of activity)
	\$200 each \$1,200

Cash dividends of \$1,000 are to be paid quarterly, beginning January 15, and are declared on the 15th of the previous month. All operating expenses are paid in arrears, except salaries, depreciation, and rent. Rent of \$200 is paid in the beginning of each month, and the additional 10% of sales is paid quarterly on the 15th of the month following the end of the quarter. The non-current assets in the balance sheet are:

The company plans to buy some new fixtures for \$2,000 each in March.

Money can be borrowed and repaid in instalments of \$500 at the interest rate of 10% per annum. Management wants to maintain borrowing and repay only if it is necessary to complete and paid when the principal is repaid. Assume that borrowing begins at the beginning, and repays at the end of the month. Current balance in the current dollar.

Assets as at	Liabilities as at		
December 31, 2004	December 31, 2004		
Cash	\$ 5,000	Accounts payable	\$10,000
Accounts receivable	12,500	Other receivables	\$10,000
Inventory*	\$2,000	Dividends payable	1,500
Prepaid insurance	1,500	Bank overdraft	7,000
Fixed assets, net	12,500		\$11,000
	\$33,500		\$33,500

* Inventory is measured at cost.

Rates and forecast sales

Month	1	2	3	4
Revenue	\$10,000	\$20,000	\$30,000	\$40,000
Expenses	\$25,000	\$25,000	\$25,000	\$25,000

- Prepare a master budget including a budgeted income statement, balance sheet, statement of cash movements, and supporting schedules for the next 12 months through March 2005.
- Explain why there is a need for a bank loan and what operating expense provides the cash for the repayment of the bank loan.



So what are the assets given here? These are the assets given to you here are assets as on 31st December 2004. So these assets given to us are fixed assets are 12,500 and then we have to go for the adjustments if there is any addition in the fixed assets in the current quarter.

(Refer Slide Time: 9:14)

Budgeted Balance Sheet of VRC as at the end of Q



Assets

Fixed Assets — 14,750 (12,500 + 2,250 - 750)

Alts — 2,250 (0.10 x 22,500 + 0.40 x 28,110)

✓ Unexpired Ins. — 1,125

Inventory at (Mar) — 600

Master Budget - Mini case

Harold Ltd Company is a small business for the year, based on the following master budget for the year ending 31st December 2020. It operates on a selling commission basis of 10% on sales. Sales are forecasted to be average standard selling price of £2 per kilo of product. Variable costs of 10% per kilo of product are expected. Fixed expenses are expected to be £100,000. The company plans to buy new equipment for £10,000, plus other expenses.

On January 1, 2020, the company has cash and receivables of £100,000, plus other expenses. The following month, all sales are on credit, payable within 30 days. The expected balance sheet of the company at the end of the year is as follows:

Assets as at December 31, 2020	Liabilities as at December 31, 2020
Cash	Accounts payable
Accounts receivable	Manufacturing equipment
Inventory	Manufacturing overheads
Prepaid expenses	Notes payable
Fixed assets net	

Each dividend of £1,000 is to be paid quarterly beginning January 15 and on the last day of the previous month. All quarterly expenses are paid to the bank. The company plans to buy new equipment for £10,000 plus other expenses.

Money can be borrowed and repaid in multiples of £100 at an interest rate of 10% per annum. Management wishes to maintain working capital and other liquidity ratios in comparison with other companies in the industry. Assume that borrowing occurs at the beginning and repayment at the end of the month. Complete the master budget for the year ending 31st December 2020.

Assets as at	Liabilities as at
September 30, 2019	December 31, 2019
Cash	Accounts payable
Accounts receivable	Manufacturing equipment
Inventory	Manufacturing overheads
Prepaid expenses	Notes payable
Fixed assets net	

1. Prepare a master budget including a budgeted income statement, balance sheet, statement of cash receipts and disbursements, and supporting schedules for the year 2020.
2. Explain why there is a need for a budget and what operating ratios provide the basis for the preparation of the budget.



Budgeted Income Statement of V.K.C for B.

Sales	\$ 1,75,000 ✓
less C.O.G.S	\$ 87,500
Gross Profit/Margin	\$ 87,500 ✓
less Operating Exp.	
Rent	17,250 (16500 + 750)
Wages & salaries	25,000 ✓
Dep	750 ✓
Insurance	3,750 ✓
M.S.	7,500 ✓
Total Int. Exp.	70,875
Net Income from op.	16,625 ✓
less Int. exp.	288
Net Income/Profit	16,337

16,337

So, what is the, we will put it here how we have calculated? This balance of the fixed assets with us will come up as 14,750. Fixed assets, total fixed assets will come up with us will be that is the 14,750. Now, how I worked out this figure because if you go to the previous balance sheet, this amount is 12,500. So how it became the 14,750? This amount has become I will show you the details. This is, what was the opening balance? 12,500 plus we added one fixed asset in the current quarter that is the fixture and how much is the fixture? That fixture was something like for 3,000. Right and in this case means total balance became how much? 12,500 plus 3,000; 15,500 minus something, what you will subtract here?

Depreciation, so depreciation of 750 is subtracted what is the depreciation amount here. We have taken the depreciation amount here that is the 750. This is the depreciation. We have to subtract that, so it is 12,500 plus 3,000, 12,500 plus 3,000 minus 750 as depreciation. So, finally you are left with the balance of 14,750, they are the fixed assets. Then next asset we will take here as now the say Accounts Receivables. Accounts Receivables A/R. Accounts Receivables will come from where. Accounts Receivables are the sales which are still to be collected by the firm. So, after this fixed assets, after calculating the balance of the fixed assets as 14,750.

Next asset, now, I am taking because fixed assets are over now. We don't have any other fixed asset here. We are given sum total is 14,750 which we worked out here that is 12,500 plus 3,000 which we acquired in current quarter minus 750 is the depreciation so the final balance of the fixed asset is the 14,750. Now we will go for the current assets. And the current assets first I am taking is the Accounts Receivables. So Accounts Receivables, we have to calculate. And if you say refer back to the case. We are given a condition that the collections are say in terms of 60 percent in the current month of the sales 30 percent in the next month and 10 percent in the next to next month.

So, it means 60 percent are collected in the month of sales. January, February, March but remaining 40 percent will come in the next 2 months in the proportion of the 30 percent and 10 percent. Right, so in this case, now we have to find out the account receivables. Accounts Receivables figure comes up here that is 22,700. How it is, 22,700, how it is working out as this figure is coming up as say February sales are only 10 percent left to be collected. So what were the February sales? 75,000 so we will have to take the 10 percent of that is 10 percent of say you can call it as 75,000 plus for the month of March.

The account receivables which are for the month of March 30 percent for the month of March and 10 percent for the month of February so it means you are left with the 40 percent of collection and the 40 percent collection of what of the total sales. These are the total sales for the month of the March. 40 percent of the collection is of how much? 38,000. So, in this quarter we have to collect the, which are the sales which are collectable. That for the month of February we still have to collect the, because in the month of February, 60 percent is collected in the month of February, 30 percent is collected in the month of March and 10 percent is left to be collected.

So, what are the total sales of the February? February sales are here something like 75,000. So from this 75,000, we have collected till the end of this quarter is the 90 percent, so 10 percent are to be collected. So 10 percent of 75,000 is the 7,500 and then we have to collect the second amount and the second amount is for the month of March. And for the month of March how much is to be collected? Total sales are 38,000 and we have collected only in the month of March. In the current month is 60 percent, so 40 percent are still to be collected so if you sum it up, calculate this proportion and sum it up you are left with the balance of 22,700 as Accounts Receivables.

Then we talk about the, say, the unexpired insurance. Unexpired insurance, so if you take the unexpired insurance, this amount will come up as how much? I am taking this amount as, this is the 1,125. Unexpired insurance 1,125, from where I have taken this amount 1,125. Now look at the old balance sheet, unexpired insurance balance is how much 1,500. Right, how much insurance we have utilized? In This quarter, this premium we have utilized in this quarter. Go back to the statement; the insurance we have utilized is the 375. So it means still there is a balance in the insurance premium account. And that balance is to the extent of 1,125.

So this unexpired insurance, this item is called as basically the, you can call it as accrued incomes. Accrued incomes are a kind of assets means, accrued incomes are which incomes or you can call it as accrued incomes or advance payments. Both are the say, you can call it as assets current assets, if we have made any advance payment, it means the benefit of that have not been enjoyed. So, the benefits has not been enjoyed and the benefits has not been realised. Payment has been made and the benefits will be will be realised in the next quarter, on the next period.

Till that time, for that payment which has already been made, but the benefit had not been realised by the firm. That is known as unexpired expense or the advance payments. Those advance payments, we had paid the premium of 1,500 dollars. But actually the premium due was 375. So it means the premium to the tune of 1,125 is paid in advance and it will be treated as a current asset till the time it becomes due. Similarly, in case of the accrued incomes, Income which has been earned but not yet received by the firm they will be received in the future period.


So till that time those incomes are received they will be shown as a current asset in the balance sheet so whether it is an advance payments or accrued incomes. Both are of the same category they are called as the current assets. And will be shown in the balance sheet. Till that time the accrued incomes are earned and the benefit of the unexpired expense or advance expenses is realised or enjoyed by the firm. That is why we are taking the unexpired insurance as 1,125. And this is the current asset. What is the one more current asset here? We have taken the fixed assets, unexpired insurance.



Now we have to take the inventory. Inventory means the closing stock, inventory of merchandise, so it means, what is Inventory of merchandise? We have purchased the means the inventory of merchandise which we were keeping that is if you go back to the purchase statement. We are going to purchase schedule is that is the desired ending inventory is how much this 6,000. So this desired ending inventory of 6,000 we will have to show it in the balance sheet so this amount is the 6,000 is the another current asset.

(Refer Slide Time: 17:06)

Budgeted Balance Sheet of VVC as at the end of Q

<u>Assets</u>	
Fixed Assets	14,750 (12,500 + 2,250 - 750)
Alts	2,220 (0.10 × 7,500 + 0.40 × 38,110)
✓ Unexpired Ins.	1,125
Inventory of (Mer)	6,000
Cash	2,847
	77,567
<u>Liab. & Capital</u>	
D. Equity	40,567 [25,710 (70,250 - 44,540)]



Master Budget - Mini case

Veritas Inc. Company is a small software firm that will base on the 10th month a master budget for the next three months, beginning January 1, 2020. It desires an ending inventory cash balance of \$1,000 each month. Being an investment in an average sharehold selling price of \$2 per line to Veritas, Veritas Inc. is preparing a budget for the 10th, 11th, and 12th months, which are the first three months of the year.

On January 1, Veritas Inc. has cash and accounts receivable of \$1,000, plus which may be paid in full during the following month. All other accounts receivable will be paid in full during the following month. The 10th, 11th, and 12th months of the year are estimated as follows: 10th month, 11th month, and 12th month. Company income for the year is as follows:

Revenue and expenses	\$15,000
Revenue earned	120
Operating expenses	200
Manufacturing	2,500
Other	4,750 (month + 10% of revenue)
Income	\$10,000

Each division of \$1,000 are to be paid quarterly beginning January 15, and are included in the 10th month of the previous month. All operating expenses are paid to account except insurance, depreciation, and other. None of these is paid at the beginning of the month, and the expense is paid in full quarterly in the month following the end of the quarter. The tax expense is due January 15. The company plans to pay the tax expense for \$1,000 each in March.

Money can be borrowed and repaid in multiples of \$500 at an interest rate of 10% per annum. Management wants to maintain borrowing and other equity. Interest is computed and paid when the principal is repaid. Assume that borrowing occurs at the beginning, and repayments at the end, of the month in question. Money is never borrowed at the beginning and repaid at the end of the same month. Company income for the year is as follows:

Assets as at	Liabilities as at		
September 30, 2019	December 31, 2019		
Cash	\$ 1,000	Accounts payable	\$ 1,000
Accounts receivable	12,000	Manufacturing	4,000
Inventory	30,000	Operating expenses	1,500
Prepaid insurance	1,500	Short payable	2,000
Fixed assets, net	45,000		144,000
	\$100,000		

* Income for previous month = \$10,000

Revenue and Estimated sales

October	\$20,000	December	\$20,000	February	\$15,000	April	\$40,000
November	25,000	January	40,000	March	30,000		

1. Prepare a master budget including a budgeted income statement, balance sheet, statement of cash receipts and disbursements, and supporting schedules for the next 10th, 11th, and 12th months through March 2020.
2. Explain why there is a need for a budget and what operating ratios provide to each for the department of the firm.



Cash Budget

Particulars	Jan.	Feb.	March.
opening balance of Cash	\$ 5000	\$ 100	\$ 37,692
Minimum Cash bal. req. d.	\$ 5000	6000	5000
Cash avail. for op.		1000	\$ 32,692
Cash. rec./dis.			
Collection from sub.	47,000	66100	51,500
Payment for Inv.	(35,500)	—	(35,450)
Cost	(5000)	(250)	(250)
wages or salaries	(15,000)	(1600)	(15,000)
Mis. exp.	(1500)	—	(3000)
Dividends	—	—	—
Purchases of fixed inv.	—	—	—
Net cash rec./dis.	(\$ 15,400)	48,250	4300
Excess/Def of Cash	(\$ 15,400)	48,250	27,992
Financing arrangements	—	—	—
Borrowing from bank	—	—	—
Repayment of bank	—	(15,500)	(2,500)
Payment of Int.	—	—	—
Net cash effect of fin.	—	—	—
Closing cash balance	\$ 5700	\$ 27,692	\$ 32,992

And I think the last current asset. Now left with us is the cash. Most liquid current asset is the cash. And what is the balance of the cash let us go back to the cash budget. The closing balance of the cash is how much. That balance of the cash is 32,992. So we will take this 32,992 we will take here. So it means all the assets we have here accounted for. What are the assets here we have taken the fixed asset, given in this balance sheet; we have taken the unexpired insurance, given in this balance sheet; we have taken the inventory from this balance sheet to the next balance sheet, we have taken the Accounts Receivables and we have taken the cash.

And so all these assets are taken from this balance sheet to the next quarter's balance sheet and if you look at that we have accounted for all the five assets out of that one is the one category is the fixed assets for the 14,750. Four are the current assets and finally we will sum it up so let us see how much it works out. This will work out as totally if you total it up 77,567 this is the total of the asset that is the 77,567 are going to be the total assets now we will come to the liabilities and capital. It is the liabilities plus and capital so what is the liabilities and capital figure. We have to put it here so we will write here. This is the first item.


I will start again preparing the balance sheet and putting the liabilities also in the, say, order of permanence so what is the owner's equity here or shareholders equity. Owner's equity or shareholders equity we will have to take up so the figure of the owner's equity I am taking up here is that is 40,567. 40,567 dollars this is owner's equity. Now you are again wondering from where this figure has come. Now you go back to the case. Look at this balance sheet; if you look at this balance sheet, you are given the information about assets which is 70,550. You are given the information of liability which is account payable, dividends payable, rent payable but no information about the equity is given.



So as the as per the accounting information how much it is, assets are equal to liabilities plus capital. So you are given the assets 70,550. You are given the liabilities 44,850. So we have to calculate the balance. So, if you take the balance here so what is the balance here we have to take is that is coming up as 25,700. This balance is 25,700 which is the difference between 70,550 minus, what is the balance in the, this is 44,850. 44,850 so this is the balance we have calculated this way. So, we can call it as, first figure is 25,700 and in this we have to add something and that, but we have to add here in this case that is the net profit.

(Refer Slide Time: 20:30)

Budgeted Income Statement of VKC for B.

Sales	\$ 1,75,000 ✓
less C.O.G.S	\$ 87,500
Gross Profit/Margin	\$ 87,500 ✓
<u>less Operating Exp:</u>	
Rent	17,250 (16,500 + 750)
Wages & Salaries	45,000 ✓
Dep	750 ✓
Insurance	375 ✓
MIS	750 ✓
Total Inv. Exp.	70,825
Net Income from op.	16,675 ✓
less Int. exp.	858
Net Income/Profit	16,367









Net profit we have earned here is the 16,367.

(Refer Slide Time: 20:34)

Budgeted Balance Sheet of VKC as at the end of B.


<u>Assets</u>	
fixed assets	14,750 (12,500 + 2,250 - 750)
Alts	22,200 (0.10 × 75,000 + 0.40 × 38,100)
✓ unexpired Ins.	1,125
Inventory at (Mar)	600
Cash	32,872
	<u>72,567</u>
liab. & Capital	
D. Equity	40,567 [25,700 (7,250 - 4,400) + 16,367] = 42,067 - 1,500




Budgeted Income Statement of V.K.C. for 8.

Sales	\$ 1,75,000 ✓	
less C.O.G.S	\$ 87,500	
<u>Gross Profit/Margin</u>	<u>\$ 87,500 ✓</u>	
less Operating Exp.		
Rent	\$ 17,850 (16,500 + 750)	
Wages & salaries	25,000	
Dep	750 ✓	
Insurance	2,250 ✓	
Mis.	7,500 ✓	
Total Inv. Exp.	<u>70,875 ✓</u>	
Net Income from op.	16,625 ✓	
less Int. exp.	288	
<u>Net Income/Profit</u>	<u>16,367</u>	



Cash Budget-

<u>Particulars</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March.</u>
opening balance of Cash	\$ 5000	5100	\$ 37,692 ✓
Minimum Cash bal. dr.	\$ 5000	6000 ✓	6000 ✓
Cash avail. for op.	<u>—</u>	1000 ✓	<u>\$ 32,692</u>
<u>Cash Rec./Dis.</u>			
Collection from Sub.	47,800 ✓	66100	51,500 ✓
Payment for Pur.	(35,500)	—	(35,450)
Rent	(5000)	(250)	(250)
wages or salaries	(15,000)	(1600)	(15,000)
Mis. exp.	(2,500)	(2500)	(2,500)
Dividends	(1500)	—	(3000)
Purchases of Frig. Inv.	(\$ 15,400)	41,250	(9200)
Net cash rec./dis.	<u>(\$ 15,100)</u>	<u>18,950</u>	<u>27,992 ✓</u>
Excess/Def of Cash	(\$ 15,500)	—	—
Financing arrangements	(15,500)	—	—
Borrow from bank	—	(15,500)	—
Repayment of loan	—	(850)	—
Payment of Int.	—	—	—
Other adjustment	(4,15,500)	15,500	—
Closing Cash balance	<u>\$ 5100</u>	<u>\$ 27,692</u>	<u>32,992</u>



So we have to add up this, this is the appreciation of the capital because of the income we have earned in the previous quarters, so this is 16,367 plus, this is the total amount. So this will become as total amount if you will calculate. This will work out as how much? This will work out as 42,067, from this 42,067 you will subtract something and that something is the dividend which will be paid. So you will subtract this figure if you will subtract this figure 1,500. 1,500 so you are left with something which is called as 40,567 so this will have calculated as owner's equity.

First 25,700 from the previous balance sheet as the difference of assets minus liabilities plus we have made some addition in this and that addition is some amount and that some amount is the amount of profit and this amount is 16,367. Which was the profit earned here, so we have to add it up so 25,700 plus 16,367. This works out as 42,067 minus dividend. Because it is the condition, that the end of every quarter we have to pay the dividend of the 1,500 to the shareholders.

So we have to subtract that so that amount of 1,500 of dividend if you subtract which will be paid as a dividend to the shareholders in the next quarter or in the 15th of April means the beginning of the next quarter first month 15th of April then you are left with the balance of 40,567 in the owner's equity account. Now, we take the other liabilities. Mostly, because we have taken the main part that is the capital, now we will go for the liabilities and will talk about the liabilities. All of the liabilities are largely they are the current liabilities.

So, first liability we take here as the accounts payable. There we have taken the Accounts Receivables. So it is accounts payables so what are the accounts payables we have to find out the accounts payables and that amount was 16,500. Accounts payable we are left with 16,500. One payment we have to make in the purchase disbursement schedule so if you take the accounts payable. Sorry this amount is 19,000. Accounts payable is 19,000 so you will take this amount as. Accounts payable is 19,000 which is coming from purchase disbursement schedule.

Next liability is the rent payable. Rent payable is, how much is the rent payable? We had calculated the rent in this previous income statement this amount we have taken here is 16,500 plus 750. Out of this total rent due which we have shown here as 17,250 this part is already paid in the cash flow statement. Because in the cash flow statement we have taken 750 that is rent is 250, 250 and 250 that we have already paid but 16,500 we have only made the provision in the profit and loss account. And this amount still has to be paid.

In the next quarter or in the beginning of the next quarter that is in the month of April, the first month in the next quarter. So till the time we make this payment of 16,500. We will have to show it as liability. This is the rent payable to the tune of 16,500. We have total end due was we have shown. This statement is prepared on the accrual basis. This is not actual. Actual is the cash statement. How the cash has been affected. The total cash moved out because of the payments.

Total cash is coming in because of the receipts that is the cash position is given in the cash budget.

In the income statement, income statement is prepared on the basis of the accrual. That is shows that is for this quarter. This much of incomes are due to be received this much of the payments are due to be made. Whether they are actually made or not that is immaterial for us. So in the rent payable we had to pay means the rent due for this quarter is 17,250 out of that paid in cash is 750 and 16,500 is still due that will not be paid in this quarter. That will be paid in the first month of the next quarter, as in case of the previous quarter for the October to December we have shown that the rent we have paid in the cash flow statement that is 8,050.

So in this 8,050, 7,800 was for the previous quarter ended in the month of December so we paid in the month of January. Similarly, for this quarter the rent 16,500 which is 10 percent of above the 10,000 of the sale is 16,500 that will be due for this quarter but will be paid in the beginning of the first month of the next quarter so still it is a liability. Then is the next is you can called it as dividend payable. This amount of the 1,500 which is subtracted from which you made the provision here in this balance sheet which is subtracted from the profit of the 16,367.

This 1,500 we will have to we have subtracted it. This amount is I have shown as minus, where this amount has gone. This amount has been kept aside to be paid as dividend to the shareholders. So this provision is made or will be made in this quarter but actually the payment of dividend will be made by the 15th of next month. Because if you talk about the say, the previous dividend we have shown here the one figure of dividend of 1,500. This dividend we have paid in the first month of this quarter. This is not for this quarter, this is for the previous quarter from October to December. So here we have paid this dividend.

We have made the provision in the previous quarter, actually the payment is made in this quarter in the first month by 15th of January. Similarly, in this quarter whatever the provision of dividend we are making here from the profit of 16,367. We are setting aside an amount of 1,500. So that 1,500 is still a liability and till that time it is finally paid transferred to the accounts of the shareholders. It will be shown as a current liability so you can call it as dividend. This is the dividend payable. This amount is how much 1,500 is the dividend payable. So if you talk about all these items here, we have taken almost everything.

We have taken the equity and equity amount we have worked out here is owner's equity we have worked out here is 40,567. Then we have to calculate here is that is the accounts payable we have already found it out. From the disbursement purchase disbursement budget, 19,000 is for the purchases done in the month of March which have to be paid still we have to pay it is accounts payables. Rent payable is 16,500 and dividend payable is 1,500. So these are the three payments. So, if you sum it up this total becomes here if you take this total this amount works out as 19 plus 16 it is 37,000.

So this amount works out as 37,000 dollars plus in this, the owner's equity basically the accounting equation accounting equation this is A, this is the C, the capital is the C. This is the C and this is the L. So basically what is the accounting equation we call it accounting equation is A is equals to liabilities plus capital or capital plus liabilities. So A in this case is we have taken is the assets are 77,567. And now liabilities we have calculated here is 37,000 plus the capital which we have calculated here is 40,567. So if you sum it up, I think it should work out as same that is the 77,567; 77,567 this is also 77,567 so these are both the sides are balance which I am going to put here not this plus this plus this plus this works out as 77,567.

So this balance sheet is balanced now. On the top we have put this balance sheet is means. Why I have prepared in this format because I wanted to explain it to you that you can prepare the balance sheet in two formats that is in the T format or in the vertical format. These days, now it has become statutory requirement also that the balance sheets and income statements should be prepared in the vertical format. So, in the previous case we have learned about the T format, in this case we have learned about the vertical format where we have put the assets on the top and putting the assets in the order of permanence most fixed assets coming at the top and then followed by the current assets similarly, then after this we put all the liabilities in capital.

Putting the most long term liability that is the owner's equity that we have put on the top after calculating it this works out as 40,567. And then we put all other liabilities so we do not have any long term liability in this case. Long term liabilities are normally loan or the bonds, debentures those are the long term liabilities. And Long term and short term the distinction between long term and short term is in terms of the time. Long term liabilities or long term assets

they are the liabilities or assets which are there with the firm for the period of more than one year.

And short term assets and liabilities which are there with the firm for a period of maximum 12 months or one year. So if you talk about the fixed assets only these are assets which are going to stay with the firm for more than one year. All others are, all other assets account receivables, Unexpired insurance, inventory or cash they are only maximum means due for the period of they are available for the period of 12 months., sometimes one month, two months, three months or even for a few weeks also. But not more than maximum duration of these current assets will not be more than 12 months. Similarly, in case of the liabilities and capital, Capital is the one which only can be paid back in case of the closure of the firm.

So this capital is the permanent source of finance, long term source of the finance. We call it capital because it is an internal source of finance so in the firm to run the firm, to run the business, funds come from two sources minus internal sources and external sources. Internal source is the owner's equity which is the most important permanent source of finance; we have put it on the top of balance sheet because we are preparing this balance sheet in the order of permanence. Then we have put all other liabilities so liabilities can also be long term and short term.

So any liability which is any source of fund which is going to stay with the firm for the period of more than one year, for example- funds coming from long term loans from financial institutions or banks or funds coming with the help of or by way of issuing debentures and bonds they are the long term. In this case no such funds has been raised by the company so it means all the liabilities are current liabilities. The duration of these liabilities maximum can be for a period of 12 months whereas in this case we are finding they are only valid for or there life is may be for a month or may a quarter or something like that.

So we have taken the all the liabilities which are mostly the current liabilities, accounts payables and rent payables and dividend payable. So, if you sum it up the total of assets. All fixed and current, this works out as 77,567 and if you look at the total liabilities plus capital it's the same 77,567. So it means you can say that we have verified that the quarterly financial position of this company Victoria Kite Company is balanced. The financial position for this quarter that is from

January to March it is in the balanced state and there is nothing to worry about. Assets are equal to the liabilities plus capital or vice versa.

So we are in the balance the state of affairs. How much funds have been raised by the company? Equal amount of the assets we have it means the balance sheets quarterly balance sheets is in the balanced state right. Now further, we can prepare the budget for the next quarter, next quarter and sum up all the four quarters and you can prepare the Convert that into the annual budgets. So that can be done that way but normally, we say divide the budgets into the shorter time horizons. Some are the companies these days, they are preparing the weekly budget also, some are preparing monthly budgets, and some are preparing quarterly budgets.

And summing all those sub budgets gives the consolidated budget that is called as the annual budget. So, shorter the time period horizons of the budget means is better for the firm to find out what they are going to do in that budget period and comparing the Budgeted results with the actual results. Finding out the variances becomes easy. Right, so this is the process how we can prepare the master budget which has two components, operating budget and then the financial budget. So end of the operating budget is the Budgeted income statement and end of the financial budget is the budgeted balance sheet.

And finally, we have shown here that after knowing conceptually how practically we can prepare these this master budget which has true components. Finally, means preparing the Budgeted income statement, cash statement cash budget and the Budgeted balance Sheet. This way the total budget can be prepared. Now this total master budget is available with the firm. For this quarter of January to March, following this say Budgeted, all these Budgeted estimates they will go for actual performance when the quarter will actually start because budget is prepared before the beginning of the quarter.

So, when the quarter will start they will go for the performance and in the end of quarter may be after March. 31st March they can compare the Budgeted and the actual results and find out the variances so this all is about the master budget. I will stop here with the process of master budget but there are certain limitations of the master budget which have to be done in a way with the process of the another form of the budgeting and that another form of the budgeting is called as the flexible budgeting.

So whatever, the means the benefits are there but some limitations are also there. Some shortcoming of the master budget are also there. So what are those limitations? What are those shortcomings? And how they can be removed with the help of the flexible budget? That I will discuss with you in the next class. Thank you very much!