
Class Notes

Budgeting and budget planning and control

Section 3

Part B - Cash Budget

CASH BUDGETS

These are plans that look at the inflow and outflow of cash in business. It is prepared by the management or financial accountant. It is important to note that depreciation is not included in the cash budget. This because with depreciation it is the value that is affected as there is no cash moving in or out

REASONS FOR PREPARING CASH BUDGETS

Cash Budgets are prepared for the following reasons

1. To make sure that there is enough cash to need the day to day expenses of the business
2. To see when the business will have a surplus - Income is higher than expenditure. If this happens a business may invest the money or put it back into the business to expand it.
3. TO see when the business will have a deficit - Expenditure is higher that Income. IT this happens the business will have to cut back on expenditure or get a loan (Overdraft) to cover the shortfall

The following are some of the steps that are involved in preparing a cash Budget

1. Allocating income for sales to different months
2. Allocating expenditure to different months
3. Finding the net cash for each month
4. Finding the closing cash for each month.