

# Cash budget essay sample



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Cash budget is a inputs and outputs of a business or a individual over a long period of time (e-conomic, 2013). A cash budgeting is relate to a organisation's plan to plan ahead and to plan ahead of the future in a company. It usually expressed it as numbers of cash budgeting. The main objective of preparing cash budget is to ensure that the cash is sufficient for the purpose of capital or revenues expenditure. It is also to have cash in advanced in the case of shortage of funds (Fundamentals of financial management, pg32). Having a cash budget is a important factor as it allows the company to have targets sales, minimize the loss in a company and to earn maximum revenues. It also allows the company to manage their business as well as to compare the sales between the actual and the budgeted sales (TheTimes100, 2013). Therefore, I am very much agree that without cash budgeting , management of any business will be be ineffective and will have no aims to improve further.

#### Advantages of using cash budget

The advantages of using cash budget in our daily life or a business allows you to spend within your limits, forcing you not to overspent it and not incur debts (eHow, 2013). The main purpose is to compel planning and allocations within the organization. Planning is a very important task for a company to excel. It forces every team's managers to look ahead, plan ahead , anticipate what is the problems in long term run, and to help achieve the goals in the company. In order to achieve the organisation's goals, budgets will have the strategic and tactical plans such as long term planning and advertisting or marketing. Beside planning, communication and coordination are also important as each team members will be able to contribute ideas and plans

within each other. Management will be able to give instructions to all the team members for achieving individual or as a team's goals.

As budget is established, top management feel that they are in the control of the business of the company. Therefore, more responsibility and duties for the management (CollegeAccountingCoach, 2006). Next, responsibility accounting is also the edge of using a cash budget. Managers are responsible to take charge of the budget and ensures that the targets are met. Another advantages can be estimating expenses (wiseGEEK, 2013). For example, company write down the capital expenditure the company produces each month to generate revenues. The cash then outflows are recorded in the budget (wiseGEEK, 2013).

This will enable the company to estimate how much the company spends on activities that has no value in the firm. A maximum cash budget cap limits can increase its gross profit.(wiseGEEK, 2013) Next benefits of having cash budget is to create a performance evaluation of managers' performance (CollegeAccountingCoach, 2006). As the evaluation is implemented, managers and team members will be motivated and work hard to achieve the company's goals. Thus, incentives will be given to the team members if the target is met. Lastly, it promotes continuous improvement for every staff in the company. By continue improving, it will increase the productivity of the company.

#### Disadvantages of cash budget

One of the disadvantages can be gaming the system in the cash budgeting. Experienced management staffs could set the targets sales lower to reduce

revenues and increase the expense expenditure, so that the management staffs could easily achieve the target (AccountingTools, 2013) Another disadvantages can be blaming for outcomes. If one of the department did not reach its budgeted goals, the department managers will blame the other departments that provide services to him. It could be blamed for not doing their jobs properly and seriously (AccountingTools, 2013). The next disadvantages will be spend it or lose it. For example, If a company has reached a budget below the budgeted amounts, the managers will tend to spend excessive amounts of it. Therefore, budgetary slacks occurs and the company cannot take a step higher to reduce the target budgeting (AccountingTools, 2013)

## Conclusion

In conclusion, I am agree that management of any business should recommend the use of cash budgets as the organization will have a proper planning and a has a key performance indicators of a team member. It also helps team members to fight hard and motivated to achieve maximum sales. Companies will able to save costs, generate more incomes and able to achieve the organisation's goals. The company will know the importance of cash budgeting as it has a variety of benefits such as communication within the staff, coordinate activities, as well as cohesiveness and also responsibility for management to reach the objectives.

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