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**Subject: Commerce**
**Class: M.Com-Third Semester**
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## ZeroBaseBudgeting (ZBB)

ZeroBaseBudgeting is an alternative to conventional or incremental Budgeting. ZeroBaseBudgeting was introduced at Texas Instruments in USA in 1969 by Peter Phyrr, who is known as the father of ZeroBaseBudgeting. It is a managerial tool and it steadily gaining acceptance in the business community. Zero bass boosting not Base on incremental approach and previous Years figures are not taken as the Base for, preparing next year's budget. instead the budget figures are developed with Zero as the Base, which means that a budget will be prepared as if it is being prepared for a new company for the first time.

The novel part of ZeroBaseBudgeting is the requirement that the Budgeting processes starts at Zero with all expenditures completely justified.

ZeroBaseBudgeting, budget request for appropriation are accepted on the basis of cost benefit approach which ensures value for money.

### Advantages:

The main advantages of ZeroBaseBudgeting are-

1. In ZeroBaseBudgeting all activities included in the budget and justified on cost benefit considerations which promote more effective at locations of resources.

**2.** ZeroBaseBudgeting discuss the attitude of accepting the current position in favour of an attitude of questioning and challenging each item of budget
**3.** It facilitates identification of an efficient and unnecessary activities and avoid wasteful expenditure
**4.** Cost behaviour patterns are more closely examined

**Disadvantages:**

**1.** ZeroBaseBudgeting involves high cost of repairing budgets every year
**2.** It also requires high volume of paper work
**3.** In ZeroBaseBudgeting, there is a danger of emphasizing short- term gains at the expense of long- term ones.
**4.** It has a tendency to regard any activity not foreseen and not sanctioned in the most recent ZeroBaseBudgeting as illegitimate.

## Performance Budget

In the traditional system of budgeting as used in business enterprises and government departments, the main defect is that the control of performance in terms of physical units and the related cost is not achieved. This is because in such Budgeting, money concept is given more importance. Performance Budgeting is a relatively new concept which focuses on functions, programmes and activities. Performance budgets are tablet in such a manner that each item of expenditure related to a specific responsibility centre is closely linked with the performance of that centre. Thus, performance Budgeting lays stress on activities and programmes. It tries to answer questions like- what is to be achieved? How is to be achieved? When is to be achieved? etc.

The Government of India has now decided to introduce performance Budgeting in all its department in a phased manner.

**Steps in performance Budgeting:**

**1.** Establishment of responsibility centre
**2.** Establishment of performance targets
**3.** Estimating financial requirements
**4.** Comparison of actual with budgeted performance
**5.** Reporting and action.

## Cash budget

The Cash budget is one of the most important and one of the last to be prepared. Eight days detailed estimate of cash receipts from all sources and cash payments for all purposes and the resultant cash balance during the budget period. It is a device for coordinating and controlling the financial side of the business to ensure solvency and provide a basis for planning and financing required to cover upany deficiency in cash. cash budget thus plays an important role in the financial management of a business understanding.

**Objectives of cash budget:**

The main objectives of cash budget are

**1.** It ensures that sufficient cash is available when required

**2.** It establishes a sound basis for credit

**3.** It shows whether capital expenditure may be financed internally

**4.** It establishes a sound basis for control of cash position

**5.** It indicates cache excesses and shortages so that action may be taken in time to invest any excess cash or to borrow funds to meet any shortages.

**Preparation of cash budget:**

There are three methods of preparing cash budget:

**1. <u>Receipts and Payments Method</u>**- This method is usually used for short term cash forecasts. The cash budget begins with the opening balance of cash in hand and at bank. This will be added the estimated cash receipts from various sources and from this will be deducted all estimated payments of cash.

**2<u>. Adjusted Profit and Loss Method</u>**- This method is suitable for long-term cash forecast. it is Base on the view that it is the profit that is the source of cash in the business. the profit as per profit and loss account is converted into cash figure by preparing an Adjusted Profile and Loss Account. the adjusted profit and loss method are often termed as cash flow statement because it converts the profit and loss account into cash forecast

**3. <u>Balance sheet Method</u>**- This method is also used for forecasting cash requirements for long periods and is rather similar to adjusted profit and loss account methods. Under this method, a budgeted balance sheet is prepared with all items of assets and liabilities excepting cash or bank balance.

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## <u>Long Answer Type Questions:</u>

**1.** Write a note on 'Performance Budgeting'.

**2.** What is ZeroBaseBudgeting? What are its advantages and limitations?

## <u>Short Answer Type Questions:</u>

**1.** What do you mean by performance Budgeting?

**2.** What is cash budget? How is it prepared?

***<u>References: -</u>***

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