JAGATPUR P.G COLLEGE

AFFILIATED MAHATMA GANDHI KASHI VIDIYAPITH,VARANASI

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NAME OF PAPER: ACCOUNTING FOR PLANNING AND CONTROL

TOPIC: FIXED AND FLEXIBLE BUDGET

MANOJ KUMAR RAI

DEPARTMENT OF COMMERCE

JAGATOUR P.G. COLLEGE VARANASI

Email-id:

manojkumarrai820@gmail.com

MOBILE: 9450388620

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Manoj Kumar Rai

Fixed and Flexible Budget

- *On the basis of flexibility, Budget can be of two types:*
- *1.Fixed Budget*
- *2.Flexible Budget*
- *According to I.C.M.A London ," Fixed Budget is a Budget which is designed to remain unchanged irrespective of the level of activity attained."*

Limitations of fixed Budget

- *A fixed Budget is a static Budget . Being rigid , it is not adjusted to the actual level of activity attained.*
- *A fixed Budget is not prepared according to the pattern of behaviour of costs. All costs, fixed as well as variable, are in relation to only one level of activity.*
- *A fixed Budget is only a single Budget for a particular level of activity specified. It is not designed to change with the actual level of activity.*
- *In case of fixed Budget , if the Budget and actual activity levels vary, the correct ascertainment of costs and fixation of price becomes difficult.*
- *Forecasting of results is difficult under fixed Budget.*

Flexible Budget

- *This is a dynamic Budget . It is a budget which is designed to change in accordance with the level of activity . Actual out put may differ from the budgeted out put and as such , it is necessary to modify the budget on the basis of changed out put.*
- *According to institute of cost and management accountant, London: A flexible Budget is a budget which by recognising the difference between fixed , semi and variable costs is designed to change in relation to the level of activity attained.*

Preparation of flexible Budget

- *Fixed costs*
- *Variable costs*
- *3.Semi variable costs.*
- *Questions.*
- *The production at 50% level is 600 unit and selling price is Rs35 per unit . Total costs at 50% and 60% of activity are respectively Rs25500 and Rs 28000. Find out the profit and loss at 80% activity level.*
- *Solutions,:*
- *Production at 50% level=600 units*
- *Production at 60%=600/50×60=720 units*

- *Let fixed cost be Rs x and variable cost per unit Rs y:*
- *X+720y=28000*
- *X+600y=25500*
- *== 120y=2500*
- *Y=2500/120=20.83*
- *Putting the value of y in equation*
- *X+720y=28000*
- *X+720×20.83=28000*
- *X+14998=28000*
- *X=28000-14998=Rs13003*
- *Profit at 80% level=100/50×80=960 unit*
- *Variable costs@ 960×20.83 per unit=19997*
- *Fixed costs=13003*
- *Total costs=33000*
- *Profit=600*
- *Sales@Rs.35 per unit= 33600*
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REFERENCE

- *Dr. Kamna Dhawan*
- *Publication: Navyug Publications (Second Edition)*

THANKYOU