Selling and Administrative Expense Budget

Selling and administrative expense budget is a schedule of planned operating expenses other than manufacturing costs. Usually it is divided in two sections: the selling expenses and the administrative expenses.

Both selling expenses and administrative expense may be fixed or variable (see cost behaviour). For example sales commission and freight cost on sales are variable selling expenses where as sales salaries are fixed selling expenses. Similarly depreciation and rent on office building are fixed administrative expenses whereas office supplies and utilities expense are variable administrative expenses.

Different variable selling and administrative expenses vary with different types activities. For example sales commission vary with number of units sold, entertainment expenses with number of employees in the organization etc., therefore an accurate selling and administrative expenses budget can be made by using activity based costing.

Format and Example:

The following example illustrates the format of a typical selling and administrative expense budget:

Company A
Selling and Administrative Expense Budget
For the Year Ending December 30, 2010

	Quarter				
	1	2	3	4	Year
Budgeted Selling Expenses:					
Sales Commission	$2,620	$2,380	$2,410	$3,590	$11,000
Freight-out	3,890	3,510	3,050	5,030	15,480
Budgeted Admin. Expenses:					
Office Rent	8,000	8,000	8,000	8,000	32,000
Office Salaries	10,000	10,000	10,000	10,000	40,000
Office Supplies	1,120	1,030	1,560	2,370	6,080
Miscellaneous Expenses	700	700	700	700	2,800
Total Selling & Admin. Expense	**$26,330**	**$25,620**	**$25,720**	**$29,690**	**$107,360**

Cash Budget

Cash budget is a financial budget prepared to calculate the budgeted cash inflows and outflows during a period and the budgeted cash balance at the end of the period. Cash budget helps the managers to determine any excessive idle cash or cash shortage that is expected during the period. Such information helps the managers to plan accordingly. For example if any cash shortage in expected in future, the managers plan to change the credit policy or to borrow money and if excessive idle cash is expected, they plan to invest it or to use it for the repayment of loan.

All businesses need to maintain a safe level of cash to enable them to carry on business activities. The managers of a business need to determine that safe level. The cash budget is then prepared by taking into consideration, that safe level of cash. Thus, if a cash shortage is expected during a period, a plan is made to borrow cash.

Format and Example: The following example illustrates the format of cash budget. Company A maintains a minimum cash balance of $70,000. In case of a deficiency, loan is obtained at 8% **annual** interest rate on the first day of the period.

Company A

Cash Budget

For the Year Ending December 30, 2010

	Q1	Q2	Q3	Q4	Year
Beginning Cash Balance	$5,200	$70,000	$82,652	$94800	$252652
Add: Budgeted Cash Receipts:	146,214	97,474	101,224	170,551	515,463
Total Cash Available for Use	$150,414	$167,474	$183876	$265351	$768115
Less: Cash Disbursements					
Direct Material	15,757	12,128	17,398	28,020	73,303
Direct Labor	18,676	15,960	20,090	31,115	85,841
Factory Overhead	23,508	21,180	25,868	41,282	111,838
Selling and Admin. Expenses	26,330	25,620	25,720	29,690	107,360
Equipment Purchases		6,000		14,000	20,000
Total Disbursements	$84,271	$80,888	$89076	$144,107	$398,342
Cash Surplus/(Deficit)	$66,143	$86,586	$94800	$121,244	$369,773
Financing:					
Borrowing	3,857				3857
Repayments		−3,857			−3857
Interest		−77			−77
Net Cash from Financing	$3857	−$3,934			−77
Budgeted Ending Cash Balance	$70,000	$82,652	$94,800	$131244	$369,296

Homework

Based on the following information, prepare Cash budget for ABC Company for the year of 20XX!

Quarter	1	2	3	4
Opening cash balance	$10,000	-	-	-
Collected cash	125,000	150,000	160,000	221,000
Payments				
Purchase of materials	20,000	35,000	35,000	54,200
Other paid expenses	25,000	20,000	20,000	17,000
Salary and wages	90,000	95,000	95,000	109,200
Income tax	5,000	-	-	-
Purchase of machinery	-	-	-	20,000

The company desires to maintain a cash of $15,000 at the end of each quarter. The cash can be borrowed or repaid at 10% per annum. The Primmum can go back &forth by $500). Management will pay the loan as early as possible and it should not be extended beyond four quarters. Interest is computed and paid when the principle is repaid. Assume that the borrowing amount take place at the beginning and repayments are made at the end of the quarters.

Required: Prepare cash budget. Based on your conclusion, what is your recommendation to the management?