



Budgets can be classified in different categories on the basis of time, function and flexibility. The different budgets covered under each category are shown below :

1. Classification According to Time

The budget, on the basis of time, may be classified as:

Long – term budget – A budget designed for a long period is defined as long term budget. The period generally is of 5 to 10 years. These budgets are concerned with planning of the operations of a firm over a considerably long period of time. They are generally prepared in terms of physical quantities.

Short – term budget – The budget prepared for a period less than 5 years is defined as short term budget. Generally, short term budget are prepared for a period of one to two years. They are generally prepared in terms of physical as well as in monetary units.

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Current Budget – The budget prepared for a period of a week, a month or a quarter is termed as a current budget. They are essentially short term budget adjusted to current conditions or prevailing circumstances.

Rolling Budget: A rolling budget is continually updated to add a new budget period as the most recent budget period is completed. Thus, the rolling budget involves the incremental extension of the existing budget mode

2. Classification According to Function

Different types of budgets under this head are as follows:

Sales Budget: This is the most important budget on which all other budgets are based. The sales manager is responsible for preparation and execution of the budget. The budget forecasts total sales in terms of quantity, value, items, periods, areas etc.

Production Budget: The budget is basically based on sales budget. It forecasts quantity of production in terms of items, periods, areas, etc. The work manager is responsible for preparation of overall production budget and departmental works manager is responsible for departmental production budgets.

Cost of Production Budget: It forecasts the cost of production. Separate budgets are prepared for different elements of costs such as direct material budget, direct labour budget, factory overheads budget, office overheads budget, selling and distribution overhead budget, etc.

Purchase Budget – The budget forecasts the quantity and the value of purchases required for production. It gives quantity wise and period wise information about the materials to be purchased. It correlates with sales forecast and production planning.

Personnel Budget – The budget anticipates the quantity of personnel required during a period for production activity. This may be further split up between direct and indirect personnel budgets.

Research Budget – The budget relates to the research work to be done for improvement in quality of the products or research for new products.

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Capital Expenditure Budget – The budget provides a guidance regarding the amount of capital that may be required for procurement of capital assets during the budget period.

Cash Budget – The budget is a forecast of a cash position, for a specific duration of a time for different time periods. It states the estimated amount of cash receipts and cash payments and the likely balance of cash in hand at the end of different periods.

Master Budget – It is a summary budget incorporating all functional budgets in a capsule form. It interprets different functional budgets and covers within its range the preparation of projected income statement and projected balance sheet.

3. Classification According to Flexibility

Budgets can also be classified in the following categories:

Fixed Budget – A budget prepared on the basis of a standard or fixed level of activity is called a fixed budget. It does not change with the change in level of activity. If the output and sales do not fluctuate from year to year or if an accurate prediction of the same can be made, a fixed budget can be prepared.

Flexible Budget – A budget designed in a manner so as to give the budgeted cost of any level of activity is termed as flexible budget. Such budget is prepared after considering the fixed and variable elements of cost and changes that may be expected for each item at various levels of operation