



## **(A) Operating and Functional Budgets:**

An operating/functional budget is expressed in both units and amount. When operating budgets relates to revenues, the units presented are expected to be sold and the stated amount reflect selling prices. On the contrary, when an operating budget relates to cost, the stated amount reflects cost and the input units presented are expected to be either transferred into output units or consumed.



# 1. Sales Budget:

The most important budget, which all other budgets are contingent upon, is the sales budget. All budgets, such as production budget, inventory budget, personnel budget, administration budget, selling and distribution budget and others are all affected by the sales budget and are dependent upon the revenue derived from sales. Therefore, the sales budget is the starting point in preparing other functional budgets.

Developing a sales budget requires forecasting future sales levels. Exhibit 9.3 presents a specimen of a sales budget.

**A B C Company Ltd.**  
**Sales Budget for the year Ending December 31, 2012**

<i>Products</i>	<i>Budget sales units</i> (₹)	<i>Budgeted sales price</i> (₹)	<i>Total</i>
A	70,000	80	56,00,000
B	<u>80,000</u>	120	<u>96,00,000</u>
	1,50,000		1,52,00,000

Exhibit 9.3 : Sales Budget



## **Forecasting Sales:**

**The three main factors that should be considered by management in forecasting sales are:**

(a) Information concerning past performance.

(b) Information about present conditions within the individual company and in each sales territory.

(c) Data concerning the industry and general business conditions.

The information about past performance is the starting point for sales forecasting. The sales record for past years, and particularly for the year just ending should be available to management in minute detail.



The second essential step in forecasting sales is the accumulation of data regarding conditions within the company and in each sales territory. The management can obtain a good picture of sales prospects through information sent to the head office by salesmen, dealers, and sales officers of different territories.

A survey may be conducted in sales territories about sales possibilities prior to the beginning of the fiscal year. Also, regular reports, monthly or more frequently, regarding business conditions, may be obtained. The market analysis or survey covers three fields: products, markets, and methods of distribution. The survey about the product covers the information about characteristics, its present uses, the possibility of creating new demands, main selling centres, and suggestions as to



business conditions, may be obtained. The market analysis or survey covers three fields: products, markets, and methods of distribution. The survey about the product covers the information about characteristics, its present uses, the possibility of creating new demands, main selling centres, and suggestions as to improvements in the appearance of package, trademark, or the product itself.

**Information about general business conditions are known as “business barometers” and they should be considered in preparing a sales forecast.**



**The following are important business indicators:**

1. Gross national product, which is the total market value of output of goods and services produced in the entire economy.

2. Personal income and purchasing power of the population.

3. Unemployment conditions.

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4. Government crop reports.

5. Steel, coal and oil production.

6. Wholesale price indices.

7. Business failures.

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8. Industrial production index.

9. Government policies.



## **Sales Analysis:**

After collecting all relevant information for a sale forecast, sales analysis or budget is prepared. The sales budget is usually prepared on the lines of (i) product, (ii) territory, and (iii) customer.

### **1. Sales Budget by Product:**

This budget is prepared in terms of quantities of the various classes of products. This further helps in the preparation of the production budget which is always in terms of units to be manufactured by the production departments.

### **2. Sales Budget by Territory or Area:**

Sometimes products are sold in different geographical areas or territories. This requires that the sales budget be prepared for each territory as a means of fixing separate



as a means of fixing separate targets for different salesmen representing different territories. The differences between sales targets and sales achievement for each may help in determining accountability and giving proper incentives for target performance. A sales budget by territory also helps in preparing the distribution cost budget for different areas.

Sales budgets (prepared both on product and territory basis) in terms of quantity and value are further broken down into monthly sales figures so that sales quotas can be fixed for salesmen. This also ensures coordination between production, sales, purchasing and stores departments.





### **3. Sales Budget by Customer:**

A sales budget prepared on either basis may be further classified as to the type of customers. Customer classification will indicate sales to wholesalers, retailers, jobbers, institutions, government agencies, educational institutions, foreign business, etc. This analysis reveals the contribution of each type of customer to total sales of the business firm. This may also point out that certain potential customers are not being given proper attention by the sales manager.