

# The Master Budget and Responsibility Accounting

Chapter 21

## Learning Objective 1

Learn why managers use budgets

### How Managers Use Budgets



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### Benefits of Budgeting

Forces managers to plan

Promotes coordination and communication

Provides a benchmark

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## Learning Objective 2

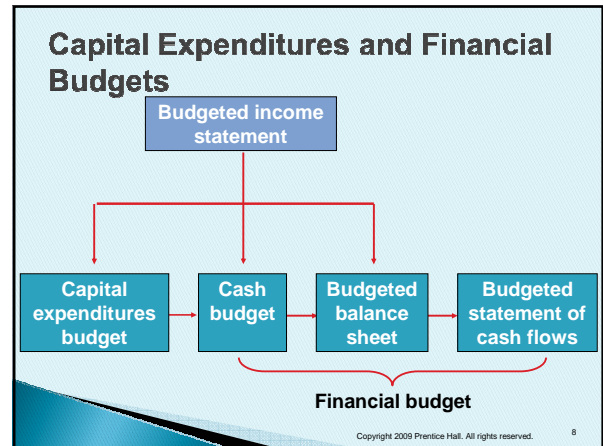
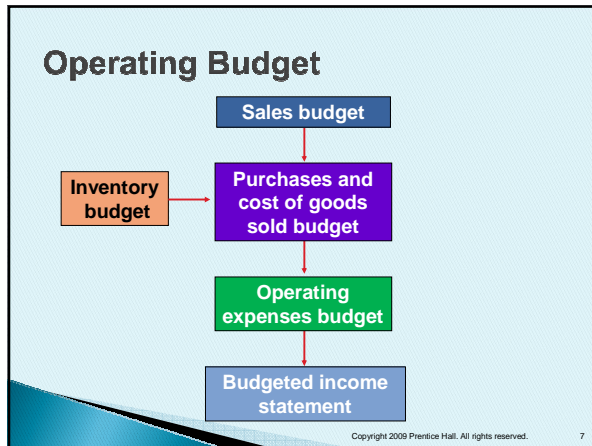
Understand the components of the master budget

### Master Budget

- ▶ Three types:
  - Operating
  - Capital expenditures
  - Financial

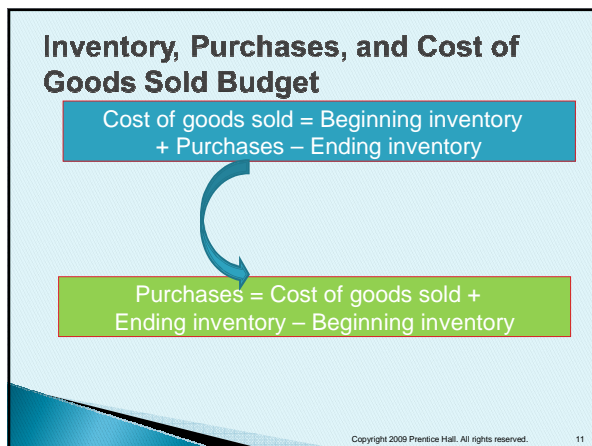
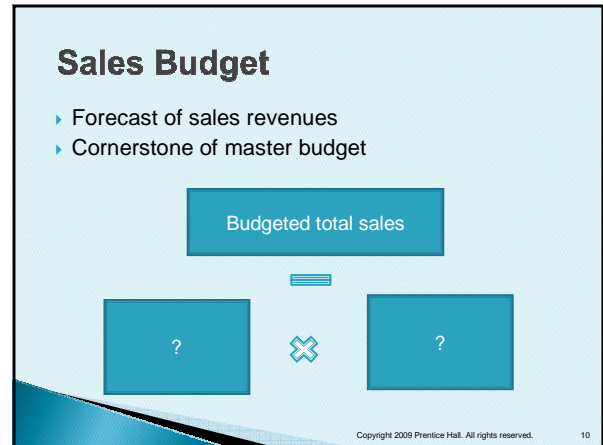
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## Learning Objective 3

Prepare an operating budget



### Exercise 21-12

SALES BUDGET				
	Quarter ended			Nine-month total
	March 31	June 30	Sept. 30	
Cash sales 30%	\$30,000	\$45,000	\$37,500	\$112,500
Credit sales 70%	<u>70,000</u>	<u>105,000</u>	<u>87,500</u>	<u>262,500</u>
Total sales	<u>\$100,000</u>	<u>\$150,000</u>	<u>\$125,000</u>	<u>\$375,000</u>

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## Exercise 21-12 (continued)

Inventory, Purchases and Cost of Goods Sold Budget				
	March 31	June 30	Sept. 30	9-month total
Cost of goods sold (60% of total sales)	\$60,000	\$90,000	\$75,000	\$225,000
+ Desired ending inventory (\$25,000 plus 10% next quarter's cost of goods sold)	34,000	32,500	37,000	
Total inventory required	94,000	122,500	112,000	
- Beginning inventory	(11,000)	(34,000)	(32,500)	
= Budgeted purchases	\$83,000	\$88,500	\$79,500	

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## Operating Expense Budget

- Expenses can be either fixed or variable

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## Learning Objective 4

Prepare a financial budget

## Financial Budget

Cash  
Budget

Budgeted  
Balance  
Sheet

Budgeted  
Statement of  
Cash Flows

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## Cash Budget

- Details how the business expects to go from the beginning cash balance to the desired ending balance

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## Parts of the Cash Budget

- Cash collections from customers
- Cash payments for purchases

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## Parts of the Cash Budget

- ▶ Payments for operating expense
- ▶ Payments for capital expenditures

## Cash Budget

Beginning cash balance	\$ 10	\$ 4
Cash collections	8	12
Cash available	18	16
Cash payments:		
Purchases of inventory	10	8
Operating expenses	2	2
Capital expenditures	4	1
Total cash payments	16	11
Ending cash balance before financing	2	5
Less: minimum cash balance	(4)	(4)
Cash excess (deficiency)	(2)	1
Financing of cash deficiency		
Borrowing	2	
Payments		(1)
Total effects of financing	2	(1)
Ending cash balance	\$ 4	\$ 4

## Exercise 21-14

(a)

Book value of equipment:		
Cost	\$22,000	
Less: Accumulated	(7,000)	
Book value		\$15,000
Plus: Gain		4,000
Expected cash receipt		\$ ?

## Exercise 21-14 (continued)

	August	September
Expected sales in units	7,800	9,100
Selling price	\$13	\$13
Expected sales	\$101,400	\$118,300
Cash sales (30%)	30,420	35,490
Credit sales (70%)	70,980	82,810

Cash sales		\$35,490
September credit sales collected	82,810 x 2/3	62,108
August credit sales collected	70,980 x 1/3	17,745
<b>Expected cash collections in September</b>		<b>\$ ?</b>

## Exercise 21-14 (continued)

### Sales commissions & selling expenses

	August	September
25% of sales	\$25,350	\$29,575

Rent and property taxes	\$4,000
Sales commissions & selling expense:	
September: (9100 x 13 x 25%) x 2/3	19,717
August: (7800 x 13 x 25%) x 1/3	8,450
<b>Expected cash payments for expenses</b>	<b>\$ ?</b>

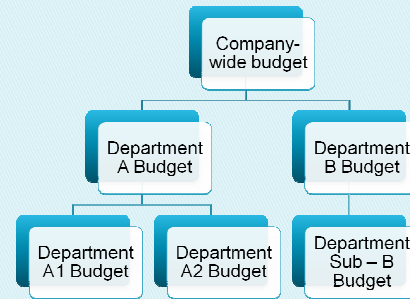
## Learning Objective 5

Use sensitivity analysis in budgeting

## Budgeting and Sensitivity Analysis

- ▶ Actual results often differ from budgeted amounts
- ▶ Sensitivity analysis
  - What if technique that determines the result if predicted amounts differ from those budgeted

## Rolling Up Individual Budgets



## Rolling Up Individual Budgets

- ▶ Company's individual operating units roll up budgets to prepare company-wide budget
- ▶ Budget management software used
- ▶ Software allows managers to spend more time analyzing data

## Learning Objective 6

Prepare performance reports for responsibility centers

## Responsibility Accounting

- ▶ Subunit of organization whose manager is accountable for specific activities



## Types of Responsibility Centers

- ▶ Cost center
- ▶ Revenue center
- ▶ Profit center

## **Types of Responsibility Centers (continued)**

- ▶ Investment center
  - Managers accountable for investments, revenues and costs

## **Responsibility Accounting Performance Reports**

- ▶ Performance reports compare budgeted and actual amounts
- ▶ Management by exception
  - Shows variances between actual and budgeted amounts

**End of Chapter 21**