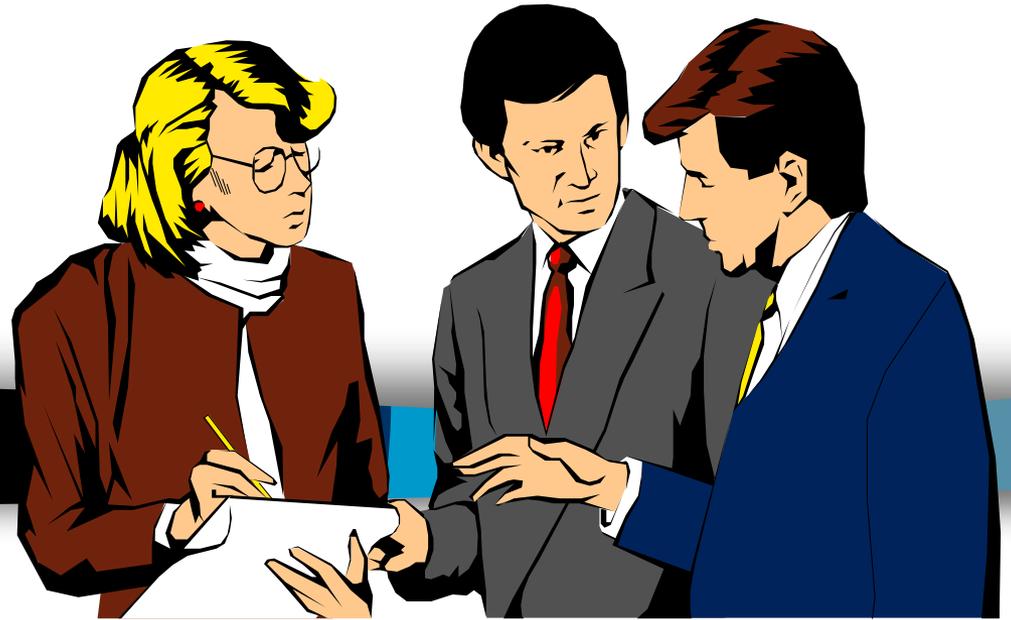
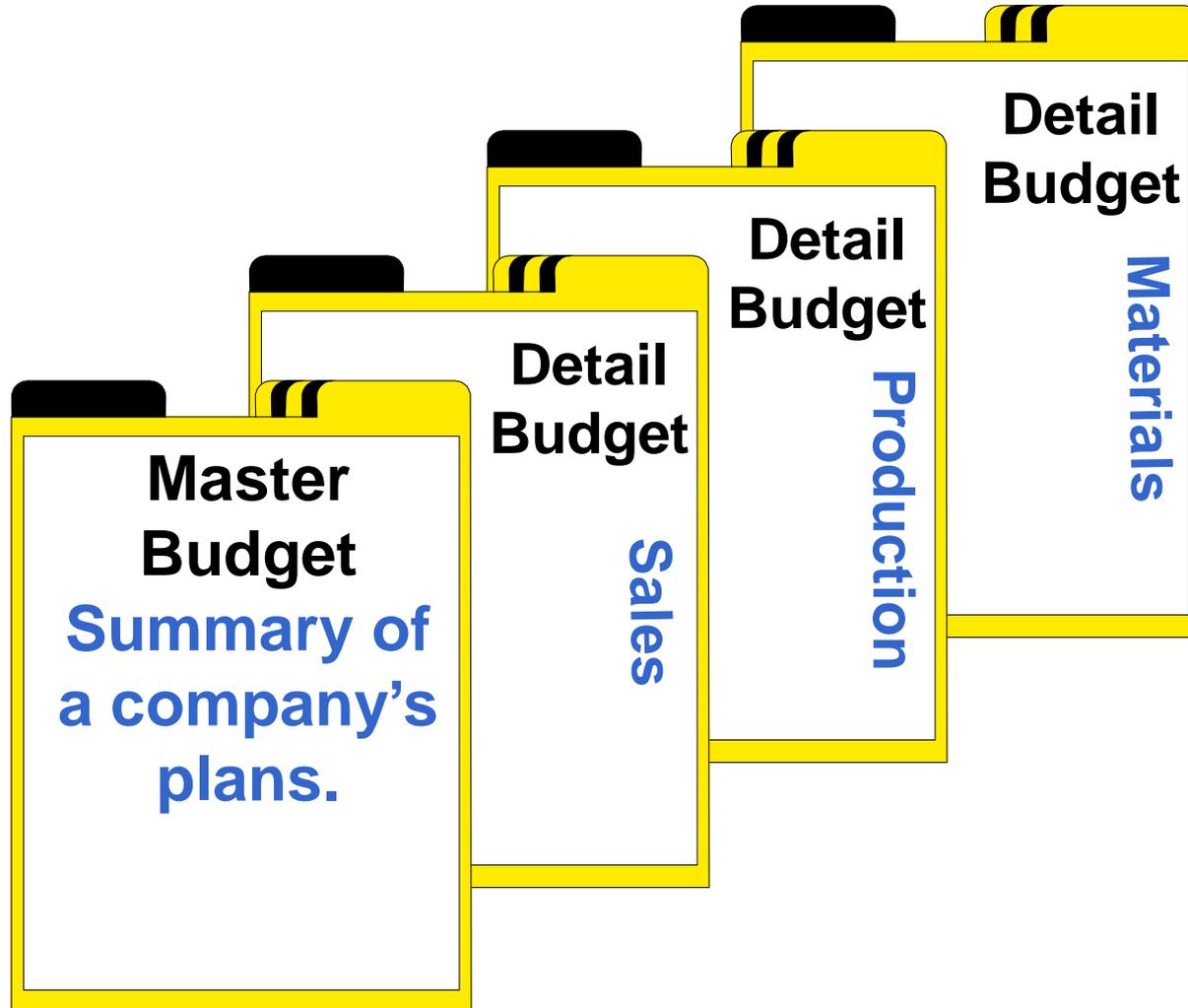


Bab 6



Profit Planning

The Basic Framework of Budgeting



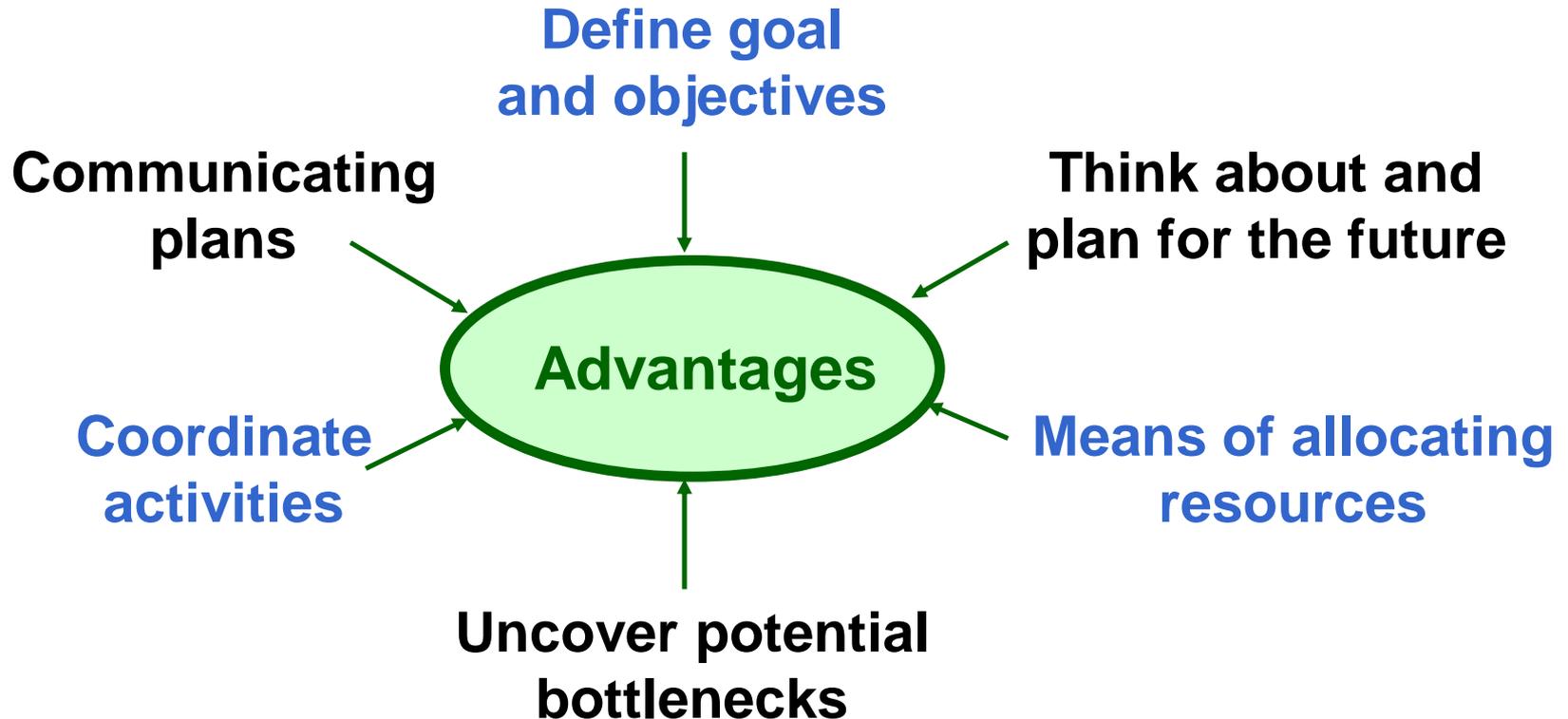
Planning and Control

- **Planning** -- involves developing objectives and preparing various budgets to achieve these objectives.

- **Control** -- involves the steps taken by management that attempt to ensure the objectives are attained.

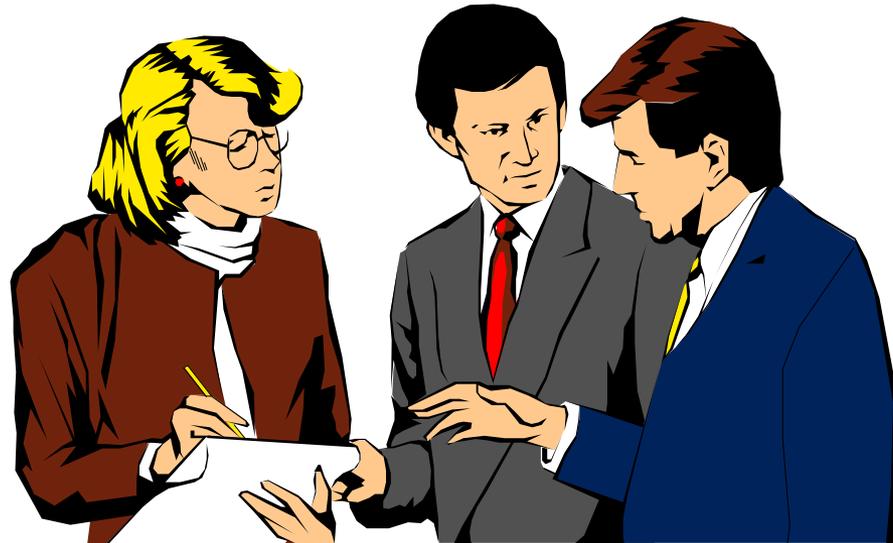


Advantages of Budgeting



Responsibility Accounting

Managers should be held responsible for those items — and **only** those items — that the manager can actually control to a significant extent.

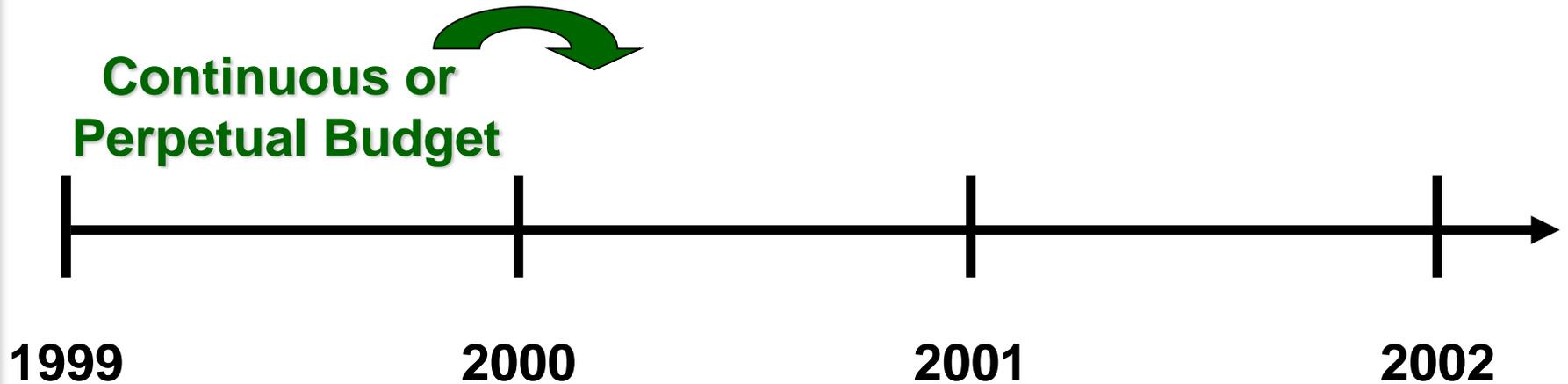


Choosing the Budget Period



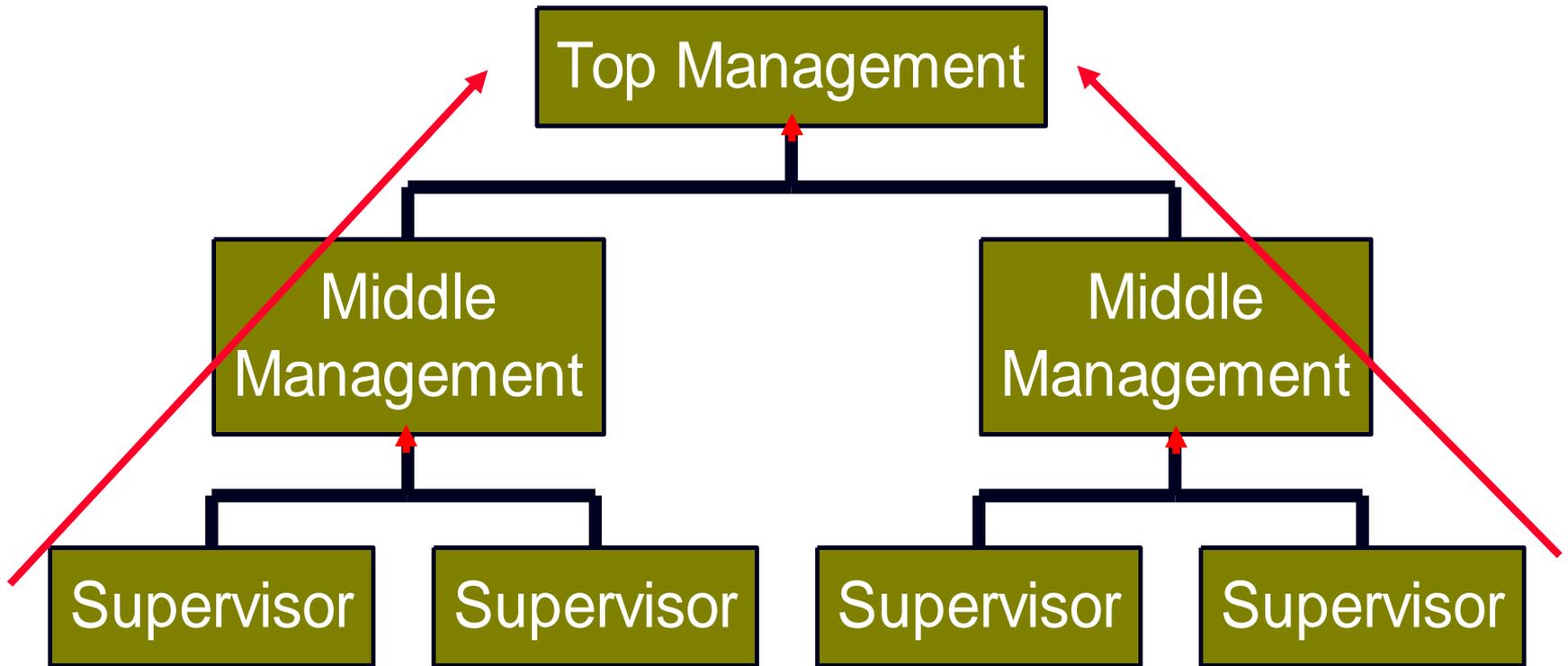
The annual operating budget may be divided into quarterly or monthly budgets.

Choosing the Budget Period



This budget is usually a twelve-month budget that rolls forward one month as the current month is completed.

Participative Budget System



Flow of Budget Data

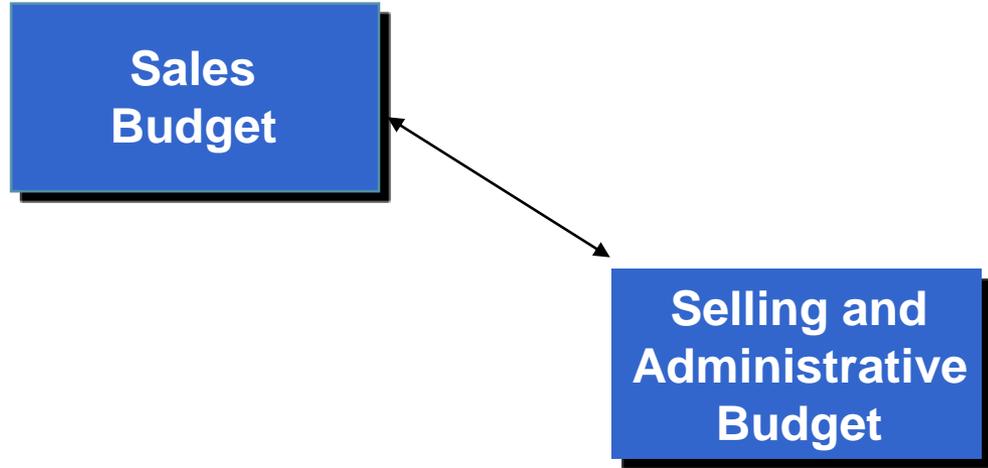
The Budget Committee

A standing committee responsible for

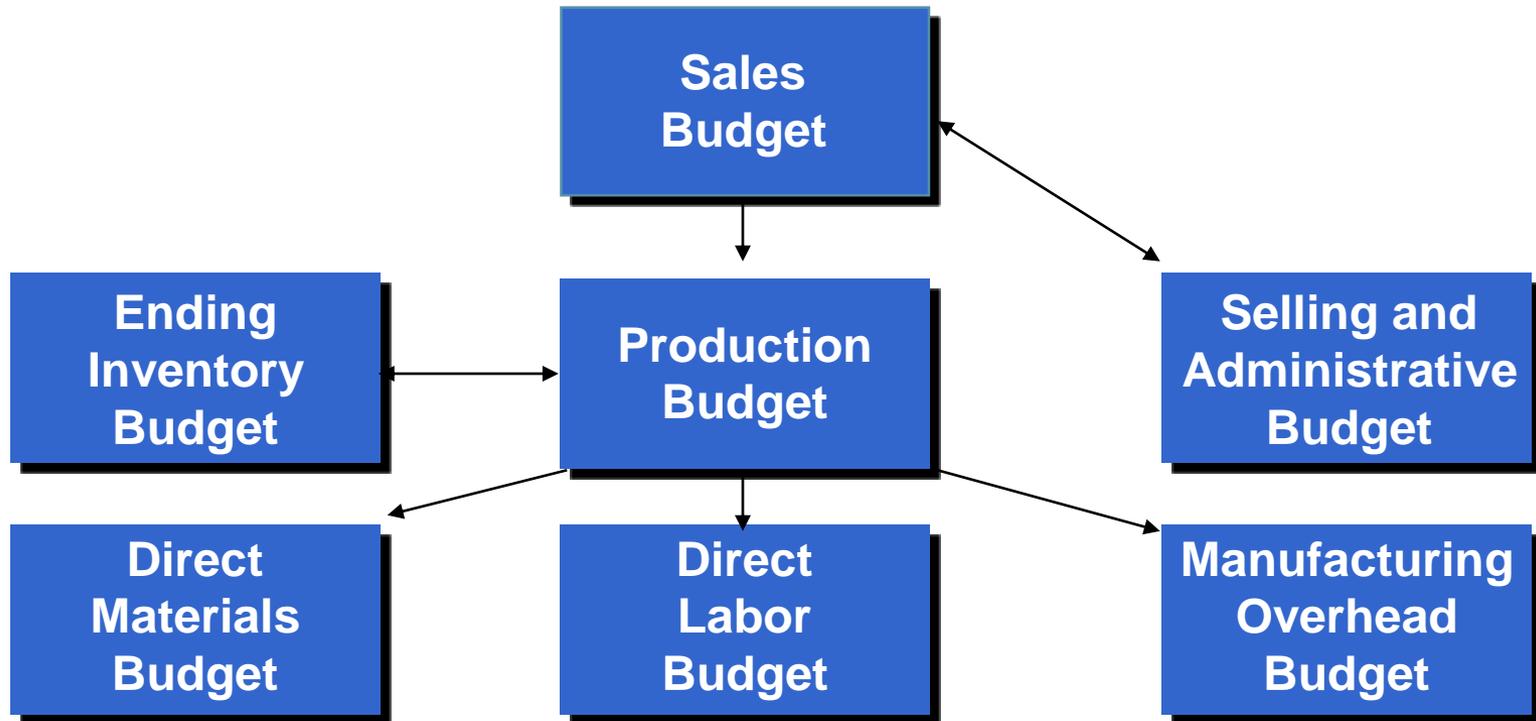
- ❖ overall policy matters relating to the budget
- ❖ coordinating the preparation of the budget



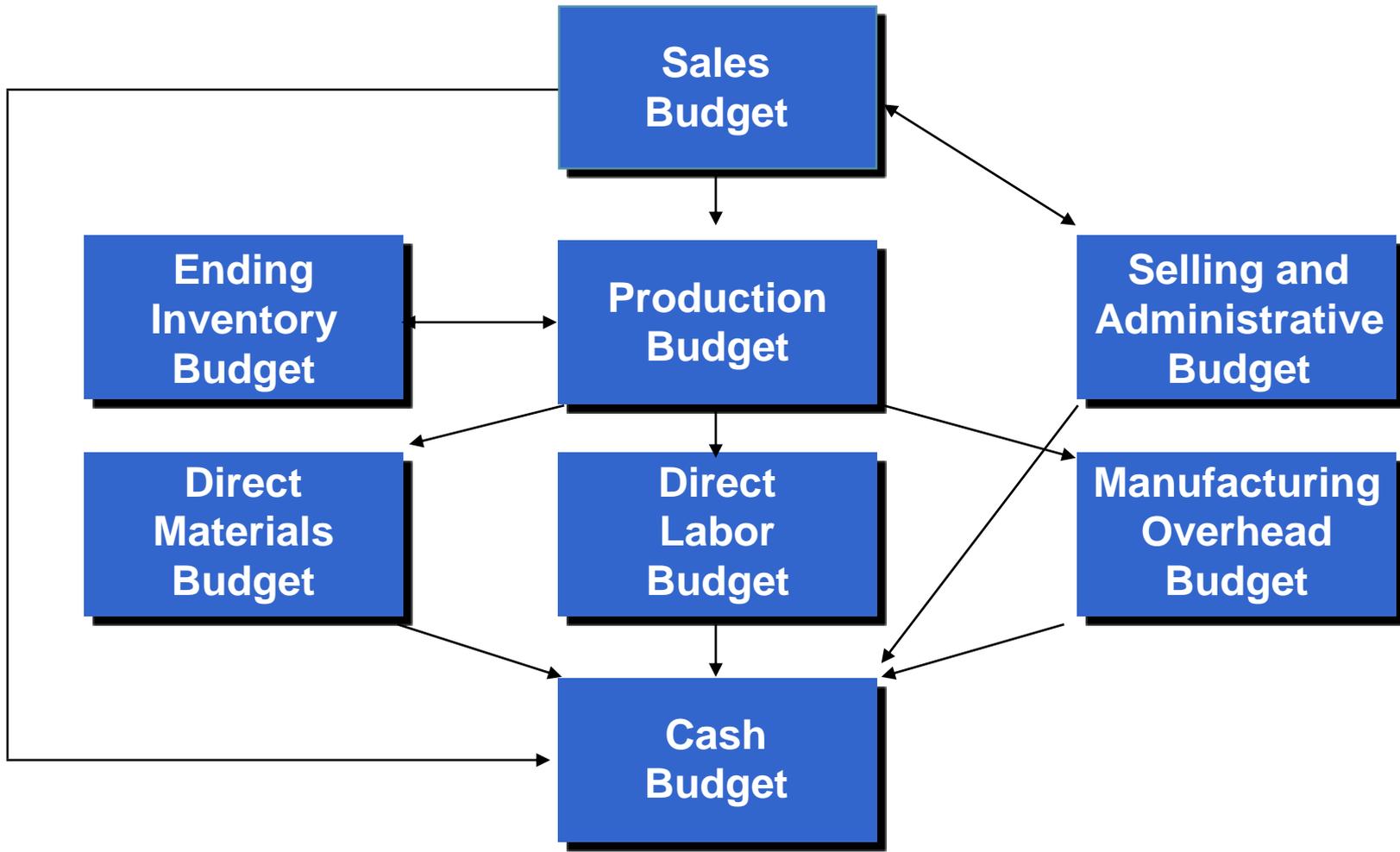
The Master Budget



The Master Budget



The Master Budget



Budgeted Financial Statements

The Sales Budget

Detailed schedule showing expected sales for the coming periods expressed in units and dollars.



Budgeting Example

① Royal Company is preparing budgets for the quarter ending June 30.

② Budgeted sales for the next five months are:

April	20,000 units
May	50,000 units
June	30,000 units
July	25,000 units
August	15,000 units.

③ The selling price is \$10 per unit.

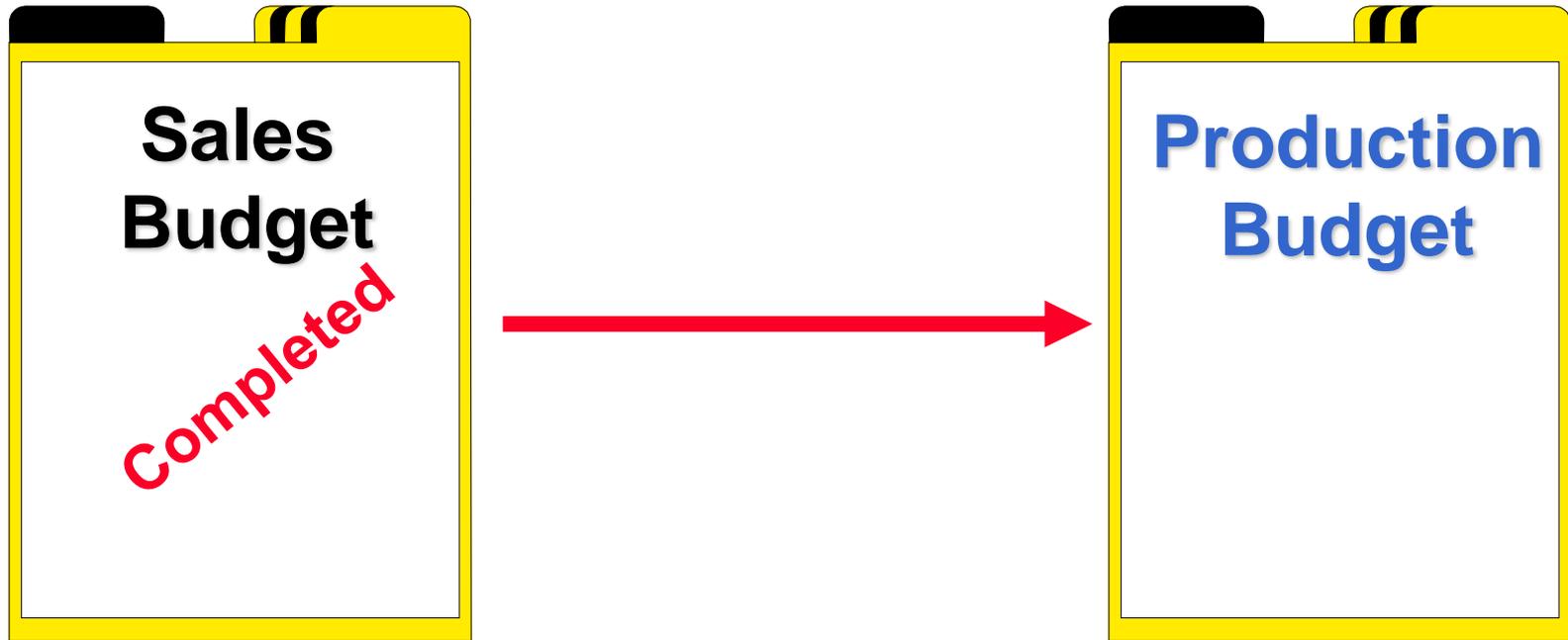
The Sales Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales (units)	20,000	50,000	30,000	100,000
Selling price per unit	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total sales	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Sales Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales (units)	20,000	50,000	30,000	100,000
Selling price per unit	\$ 10	\$ 10	\$ 10	\$ 10
Total sales	<u>\$200,000</u>	<u>\$500,000</u>	<u>\$300,000</u>	<u>\$1,000,000</u>

The Production Budget



Production must be adequate to meet budgeted sales and provide for sufficient ending inventory.

The Production Budget

- Royal Company wants ending inventory to be equal to 20% of the following month's budgeted sales in units.
- On March 31, 4,000 units were on hand.

Let's prepare the production budget.

The Production Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000			
Total needed	30,000			
Less beginning inventory	4,000			
Required production	<u>26,000</u>			

Budgeted sales	50,000
Desired percent	<u>20%</u>
Desired inventory	<u>10,000</u>

The Production Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000			
Total needed	30,000			
Less beginning inventory	4,000			
Required production	<u>26,000</u>			

**March 31
ending inventory**

The Production Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000	6,000		
Total needed	30,000	56,000		
Less beginning inventory	4,000			
Required production	<u>26,000</u>			

The Production Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000	6,000		
Total needed	30,000	56,000		
Less beginning inventory	4,000	10,000		
Required production	<u>26,000</u>	<u>46,000</u>		

The Production Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000	6,000	5,000	5,000
Total needed	30,000	56,000	35,000	105,000
Less beginning inventory	4,000	10,000	6,000	4,000
Required production	<u>26,000</u>	<u>46,000</u>	<u>29,000</u>	<u>101,000</u>

Expected Cash Collections

- All sales are on account.
- Royal's collection pattern is:
 - 70% collected in the month of sale,
 - 25% collected in the month following sale,
 - 5% is uncollectible.
- The March 31 accounts receivable balance of \$30,000 will be collected in full.

Expected Cash Collections

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts rec. - 3/31	\$ 30,000			\$ 30,000
Total cash collections	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Expected Cash Collections

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts rec. - 3/31	\$ 30,000			\$ 30,000
April sales				
70% x \$200,000	140,000			140,000
25% x \$200,000		\$ 50,000		50,000
Total cash collections	<u><u>\$ 170,000</u></u>			

Expected Cash Collections

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts rec. - 3/31	\$ 30,000			\$ 30,000
April sales				
70% x \$200,000	140,000			140,000
25% x \$200,000		\$ 50,000		50,000
May sales				
70% x \$500,000		350,000		350,000
25% x \$500,000			\$ 125,000	125,000
Total cash collections	<u>\$ 170,000</u>	<u>\$ 400,000</u>		

Expected Cash Collections

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts rec. - 3/31	\$ 30,000			\$ 30,000
April sales				
70% x \$200,000	140,000			140,000
25% x \$200,000		\$ 50,000		50,000
May sales				
70% x \$500,000		350,000		350,000
25% x \$500,000			\$ 125,000	125,000
June sales				
70% x \$300,000			210,000	210,000
Total cash collections	<u>\$ 170,000</u>	<u>\$ 400,000</u>	<u>\$ 335,000</u>	<u>\$ 905,000</u>

The Direct Materials Budget

- At Royal Company, five pounds of material are required per unit of product.
- Management wants materials on hand at the end of each month equal to 10% of the following month's production.
- On March 31, 13,000 pounds of material are on hand. Material cost \$0.40 per pound.

Let's prepare the direct materials budget.

The Direct Materials Budget

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Materials per unit	_____	_____	_____	_____
Production needs	_____	_____	_____	_____
Add desired ending inventory	_____	_____	_____	_____
Total needed	_____	_____	_____	_____
Less beginning inventory	_____	_____	_____	_____
Materials to be purchased	=====	=====	=====	=====

From production budget

The Direct Materials Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Materials per unit	5	5	5	5
Production needs	130,000	230,000	145,000	505,000
Add desired ending inventory	_____	_____	_____	_____
Total needed	_____	_____	_____	_____
Less beginning inventory	_____	_____	_____	_____
Materials to be purchased	=====	=====	=====	=====

The Direct Materials Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Materials per unit	5	5	5	5
Production needs	130,000	230,000	145,000	505,000
Add desired ending inventory	23,000			
Total needed	153,000			
Less beginning inventory				
Materials to be purchased				

10% of the following month's production

The Direct Materials Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Materials per unit	5	5	5	5
Production needs	130,000	230,000	145,000	505,000
Add desired ending inventory	23,000			
Total needed	153,000			
Less beginning inventory	13,000			
Materials to be purchased	140,000			

**March 31
inventory**

The Direct Materials Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Materials per unit	5	5	5	5
Production needs	130,000	230,000	145,000	505,000
Add desired ending inventory	23,000	14,500	11,500	11,500
Total needed	153,000	244,500	156,500	516,500
Less beginning inventory	13,000	23,000	14,500	13,000
Materials to be purchased	<u>140,000</u>	<u>221,500</u>	<u>142,000</u>	<u>503,500</u>

The Direct Materials Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Materials per unit	5	5	5	5
Production needs	130,000	230,000	145,000	505,000
Add desired ending inventory	23,000	14,500	11,500	11,500
			<u>156,500</u>	<u>516,500</u>
July Production and Inventory				
Sales in units		25,000		
Add desired ending inventory		3,000		
Total units needed		<u>28,000</u>		
Less beginning inventory		5,000		
Production in units		<u>23,000</u>		
Pounds per unit		5		
Total pounds		<u>115,000</u>		
Desired percent		<u>10%</u>		
Desired ending inventory		<u>11,500</u>		
			<u><u>142,000</u></u>	<u><u>503,500</u></u>

Expected Cash Disbursement for Materials

- Royal pays \$0.40 per pound for its materials.
- One-half of a month's purchases are paid for in the month of purchase; the other half is paid in the following month.
- The March 31 accounts payable balance is \$12,000.

Let's calculate expected cash disbursements.

Expected Cash Disbursement for Materials

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts pay. 3/31	\$ 12,000			\$ 12,000
April purchases				
May purchases				
June purchases				
Total cash disbursements	_____	_____	_____	_____
	=====	=====	=====	=====

Expected Cash Disbursement for Materials

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts pay. 3/31	\$ 12,000			\$ 12,000
April purchases				
50% x \$56,000	28,000			28,000
50% x \$56,000		\$ 28,000		28,000
May purchases				
June purchases				
Total cash disbursements	<u>\$ 40,000</u>			

$$140,000 \text{ lbs.} \times \$.40/\text{lb.} = \$ 56,000$$

Expected Cash Disbursement for Materials

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts pay. 3/31	\$ 12,000			\$ 12,000
April purchases				
50% x \$56,000	28,000			28,000
50% x \$56,000		\$ 28,000		28,000
May purchases				
50% x \$88,600		44,300		44,300
50% x \$88,600			\$ 44,300	44,300
June purchases				
Total cash disbursements	<u>\$ 40,000</u>	<u>\$ 72,300</u>		

Expected Cash Disbursement for Materials

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Accounts pay. 3/31	\$ 12,000			\$ 12,000
April purchases				
50% x \$56,000	28,000			28,000
50% x \$56,000		\$ 28,000		28,000
May purchases				
50% x \$88,600		44,300		44,300
50% x \$88,600			\$ 44,300	44,300
June purchases				
50% x \$56,800			28,400	28,400
Total cash disbursements	<u>\$ 40,000</u>	<u>\$ 72,300</u>	<u>\$ 72,700</u>	<u>\$ 185,000</u>

The Direct Labor Budget

- At Royal, each unit of product requires 0.05 hours of direct labor.
- The Company has a “no layoff” policy so all employees will be paid for 40 hours of work each week.
- In exchange for the “no layoff” policy, workers agreed to a wage rate of \$10 per hour regardless of the hours worked (No overtime pay).
- For the next three months, the direct labor workforce will be paid for a minimum of 1,500 hours per month.

Let's prepare the direct labor budget.

The Direct Labor Budget

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Direct labor hours				
Labor hours required				
Guaranteed labor hours				
Labor hours paid				
Wage rate				
Total direct labor cost				

From production budget

The Direct Labor Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours	_____	_____	_____	
Labor hours paid	_____	_____	_____	
Wage rate	_____	_____	_____	_____
Total direct labor cost	_____	_____	_____	_____

The Direct Labor Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours	1,500	1,500	1,500	
Labor hours paid	1,500	2,300	1,500	5,300
Wage rate				
Total direct labor cost				

Higher of labor hours required
or labor hours guaranteed.

The Direct Labor Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours	1,500	1,500	1,500	
Labor hours paid	1,500	2,300	1,500	5,300
Wage rate	\$ 10	\$ 10	\$ 10	\$ 10
Total direct labor cost	<u>\$ 15,000</u>	<u>\$ 23,000</u>	<u>\$ 15,000</u>	<u>\$ 53,000</u>

Manufacturing Overhead Budget

- Royal Company uses a variable manufacturing overhead rate of \$1 per unit **produced**.
- Fixed manufacturing overhead is \$50,000 per month and includes \$20,000 of noncash costs (primarily depreciation of plant assets).

Let's prepare the manufacturing overhead budget.

Manufacturing Overhead Budget

	April	May	June	Quarter
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	\$ 1	\$ 1	\$ 1	\$ 1
Variable mfg. OH costs	\$ 26,000	\$ 46,000	\$ 29,000	\$ 101,000
Fixed mfg. OH costs				
Total mfg. OH costs				
Less noncash costs				
Cash disbursements for manufacturing OH				

From production budget

Manufacturing Overhead Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	\$ 1	\$ 1	\$ 1	\$ 1
Variable mfg. OH costs	\$ 26,000	\$ 46,000	\$ 29,000	\$ 101,000
Fixed mfg. OH costs	50,000	50,000	50,000	150,000
Total mfg. OH costs	76,000	96,000	79,000	251,000
Less noncash costs				
Cash disbursements for manufacturing OH				

Manufacturing Overhead Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	\$ 1	\$ 1	\$ 1	\$ 1
Variable mfg. OH costs	\$ 26,000	\$ 46,000	\$ 29,000	\$ 101,000
Fixed mfg. OH costs	50,000	50,000	50,000	150,000
Total mfg. OH costs	76,000	96,000	79,000	251,000
Less noncash costs	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>60,000</u>
Cash disbursements for manufacturing OH	<u>\$ 56,000</u>	<u>\$ 76,000</u>	<u>\$ 59,000</u>	<u>\$ 191,000</u>

Depreciation is a noncash charge.

Ending Finished Goods Inventory Budget

- Now, Royal can complete the ending finished goods inventory budget.
- At Royal, manufacturing overhead is applied to units of product on the basis of direct labor hours.

Let's calculate ending finished goods inventory.

Ending Finished Goods Inventory Budget

<u>Production costs per unit</u>	<u>Quantity</u>	<u>Cost</u>	<u>Total</u>
Direct materials	5.00 lbs.	\$ 0.40	\$ 2.00
Direct labor			
Manufacturing overhead			
<u>Budgeted finished goods inventory</u>			
Ending inventory in units			
Unit product cost			
Ending finished goods inventory			

Direct materials
budget and information

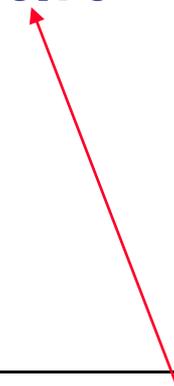
Ending Finished Goods Inventory Budget

<u>Production costs per unit</u>	<u>Quantity</u>	<u>Cost</u>	<u>Total</u>
Direct materials	5.00 lbs.	\$ 0.40	\$ 2.00
Direct labor	0.05 hrs.	\$10.00	0.50
Manufacturing overhead			
<u>Budgeted finished goods inventory</u>			
Ending inventory in units			
Unit product cost			
Ending finished goods inventory			

Direct labor budget

Ending Finished Goods Inventory Budget

<u>Production costs per unit</u>	<u>Quantity</u>	<u>Cost</u>	<u>Total</u>
Direct materials	5.00 lbs.	\$ 0.40	\$ 2.00
Direct labor	0.05 hrs.	\$10.00	0.50
Manufacturing overhead	0.05 hrs.	\$49.70	2.49
			<u>\$ 4.99</u>
<u>Budgeted finished goods inventory</u>			
Ending inventory in units			
Unit product cost			<u>\$ 4.99</u>
Ending finished goods inventory			<u><u> </u></u>



$$\frac{\text{Total mfg. OH for quarter } \$251,000}{\text{Total labor hours required } 5,050 \text{ hrs.}} = \$49.70 \text{ per hr.}^*$$

*rounded

Ending Finished Goods Inventory Budget

<u>Production costs per unit</u>	<u>Quantity</u>	<u>Cost</u>	<u>Total</u>
Direct materials	5.00 lbs.	\$ 0.40	\$ 2.00
Direct labor	0.05 hrs.	\$10.00	0.50
Manufacturing overhead	0.05 hrs.	\$49.70	2.49
			<u>\$ 4.99</u>
<u>Budgeted finished goods inventory</u>			
Ending inventory in units			5,000
Unit product cost			\$ 4.99
Ending finished goods inventory			<u>\$24,950</u>

**Production
Budget**

Selling and Administrative Expense Budget

- At Royal, variable selling and administrative expenses are \$0.50 per unit **sold**.
- Fixed selling and administrative expenses are \$70,000 per month.
- The fixed selling and administrative expenses include \$10,000 in costs – primarily depreciation – that are not cash outflows of the current month.

Let's prepare the company's selling and administrative expense budget.

Selling and Administrative Expense Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales	20,000	50,000	30,000	100,000
Variable selling and admin. rate	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50
Variable expense	<u>\$10,000</u>	<u>\$25,000</u>	<u>\$15,000</u>	<u>\$ 50,000</u>
Fixed selling and admin. expense	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>	<u>210,000</u>
Total expense	80,000	95,000	85,000	260,000
Less noncash expenses				
Cash disburse- ments for selling & admin.	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Selling and Administrative Expense Budget

	<u>April</u>	<u>May</u>	<u>June</u>	<u>Quarter</u>
Budgeted sales	20,000	50,000	30,000	100,000
Variable selling and admin. rate	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50
Variable expense	<u>\$10,000</u>	<u>\$25,000</u>	<u>\$15,000</u>	<u>\$ 50,000</u>
Fixed selling and admin. expense	<u>70,000</u>	<u>70,000</u>	<u>70,000</u>	<u>210,000</u>
Total expense	80,000	95,000	85,000	260,000
Less noncash expenses	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>30,000</u>
Cash disburse- ments for selling & admin.	<u><u>\$70,000</u></u>	<u><u>\$85,000</u></u>	<u><u>\$75,000</u></u>	<u><u>\$230,000</u></u>

The Cash Budget

Royal:

- Maintains a 16% open line of credit for \$75,000.
- Maintains a minimum cash balance of \$30,000.
- Borrows on the first day of the month and repays loans on the last day of the month.
- Pays a cash dividend of \$49,000 in April.
- Purchases \$143,700 of equipment in May and \$48,300 in June paid in cash.
- Has an April 1 cash balance of \$40,000.

The Cash Budget

	April	May	June	Quarter
Beginning cash balance	\$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor				
Mfg. overhead				
Selling and admin.				
Equipment purchase				
Dividends				
Total disbursements				
Excess (deficiency) of cash available over disbursements				

Schedule of Expected Cash Disbursements

Schedule of Expected Cash Collections

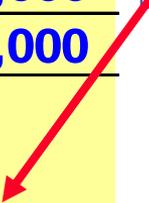
The Cash Budget

	April	May	June	Quarter
Beginning cash balance	\$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor	15,000			
Mfg. overhead	56,000			
Selling and admin.	70,000			
Equipment purchase				
Dividends				
Total disbursements				
Excess (deficiency) of cash available over disbursements				

The Cash Budget

	April	May	June	Quarter
Beginning cash balance	\$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor	15,000			
Mfg. overhead	56,000			
Selling and admin.	70,000			
Equipment purchase	-			
Dividends	49,000			
Total disbursements	230,000			
Excess (deficiency) of cash available over disbursements	\$(20,000)			

Because Royal maintains a cash balance of \$30,000, the company must borrow on its line-of-credit



Financing and Repayment

	April	May	June	Quarter
Excess (deficiency) of Cash available over disbursements	\$ (20,000)			
Financing:				
Borrowing	50,000			
Repayments	-			
Interest	-			
Total financing	50,000			
Ending cash balance	\$ 30,000	\$ 30,000	\$ -	\$ -

Ending cash balance for April
is the beginning May balance.

The Cash Budget

	April	May	June	Quarter
Beginning cash balance	\$ 40,000	\$ 30,000		
Add cash collections	170,000	400,000		
Total cash available	210,000	430,000		
Less disbursements				
Materials	40,000	72,300		
Direct labor	15,000	23,000		
Mfg. overhead	56,000	76,000		
Selling and admin.	70,000	85,000		
Equipment purchase	-	143,700		
Dividends	49,000	-		
Total disbursements	230,000	400,000		
Excess (deficiency) of cash available over disbursements	\$(20,000)	\$ 30,000		

Financing and Repayment

	April	May	June	Quarter
Excess (deficiency) of Cash available over disbursements	\$(20,000)	\$30,000		
Financing:				
Borrowing	50,000	-		
Repayments	-	-		
Interest	-	-		
Total financing	50,000	-		
Ending cash balance	\$ 30,000	\$30,000		

Because the ending cash balance is exactly \$30,000, Royal will not repay the loan this month.

The Cash Budget

	April	May	June	Quarter
Beginning cash balance	\$ 40,000	\$ 30,000	\$ 30,000	\$ 40,000
Add cash collections	170,000	400,000	335,000	905,000
Total cash available	210,000	430,000	365,000	945,000
Less disbursements				
Materials	40,000	72,300	72,700	185,000
Direct labor	15,000	23,000	15,000	53,000
Mfg. overhead	56,000	76,000	59,000	191,000
Selling and admin.	70,000	85,000	75,000	230,000
Equipment purchase	-	143,700	48,300	192,000
Dividends	49,000	-	-	49,000
Total disbursements	230,000	400,000	270,000	900,000
Excess (deficiency) of cash available over disbursements	\$(20,000)	\$ 30,000	\$ 95,000	\$ 45,000

The Cash Budget

	April	May	June	Quarter
Beginning cash balance	\$ 40,000	\$ 30,000	\$ 30,000	\$ 40,000
Add cash collections	170,000	400,000	335,000	905,000
Total cash available	210,000	430,000	365,000	945,000
Less disbursements				
Materials	40,000	72,300	72,700	185,000
Direct labor	15,000	23,000	15,000	53,000
Mfg. overhead	56,000	76,000	59,000	191,000
Selling and Equipment Dividends				
Total disbursements	230,000	400,000	270,000	900,000
Excess (deficiency) of cash available over disbursements	\$(20,000)	\$ 30,000	\$ 95,000	\$ 45,000

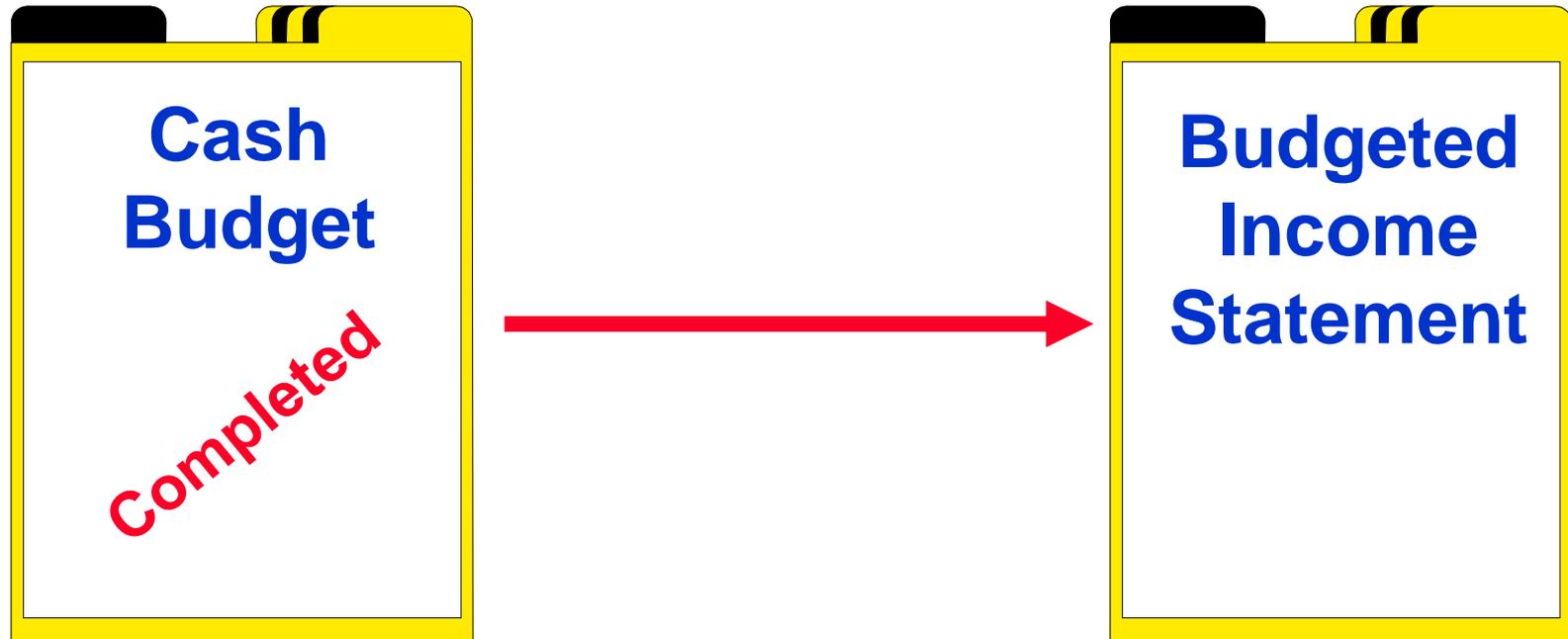
At the end of June, Royal has enough cash to repay the \$50,000 loan plus interest at 16%.

Financing and Repayment

	April	May	June	Quarter
Excess (deficiency) of Cash available over disbursements	\$ (20,000)	\$30,000	\$95,000	\$45,000
Financing:				
Borrowing	50,000	-	-	50,000
Repayments	-	-	(50,000)	(50,000)
Interest	-	-	(2,000)	(2,000)
Total financing	50,000	-	(52,000)	(2,000)
Ending cash balance	\$ 30,000	\$30,000	\$43,000	\$43,000

$$\frac{\$50,000 \times 16\% \times 3/12}{1} = \$2,000$$
 Borrowings on April 1 and
 repayment of June 30.

The Budgeted Income Statement



**After we complete the cash budget,
we can prepare the budgeted income
statement for Royal.**

The Budgeted Income Statement

Royal Company
Budgeted Income Statement
For the Three Months Ended June 30

Sales (100,000 units @ \$10)	\$1,000,000
Cost of goods sold (100,000 @ \$4.99)	499,000
	<hr/>
Gross margin	501,000
Selling and administrative expenses	260,000
	<hr/>
Operating income	241,000
Interest expense	2,000
	<hr/>
Net income	\$ 239,000
	<hr/> <hr/>

The Budgeted Balance Sheet

Royal reported the following account balances on June 30 prior to preparing its budgeted financial statements:

- ❖ Land - \$50,000
- ❖ Building (net) - \$175,000
- ❖ Common stock - \$200,000
- ❖ Retained earnings - \$146,150

Royal Company
Budgeted Balance Sheet
June 30

Current assets

Cash	\$	43,000
Accounts receivable		75,000
Raw materials inventory		4,600
Finished goods inventory		24,950
Total current assets		147,550

Property and equipment

Land		50,000
Building		175,000
Equipment		192,000
Total property and equipment		417,000

Total assets \$ 564,550

Accounts payable	\$	28,400
Common stock		200,000
Retained earnings		336,150
Total liabilities and equities		\$ 564,550

25% of June sales of \$300,000

11,500 lbs. at \$0.40/lb.

5,000 units at \$4.99 each

50% of June purchases of \$56,800

**Royal Company
Budgeted Balance Sheet
June 30**

Current assets

Cash **\$ 43,000**

Accounts receivable

Raw materials inventory

Finished goods inventory

Total current assets

Beginning balance	\$146,150
Add: net income	239,000
Deduct: dividends	<u>(49,000)</u>
Ending balance	<u><u>\$336,150</u></u>

Property and equipment

Land **50,000**

Building **175,000**

Equipment **192,000**

Total property and equipment **417,000**

Total assets **\$ 564,550**

Accounts payable **\$ 28,400**

Common stock **200,000**

Retained earnings **336,150**

Total liabilities and equities **\$ 564,550**

Zero-Base Budgeting

Managers are required to justify all budgeted expenditures, not just changes in the budget from the previous year. The baseline is zero rather than last year's budget.



International Aspects of Budgeting

Multinational companies face special problems when preparing a budget.

- ❖ Fluctuations in foreign currency exchange rates.
- ❖ High inflation rates in some foreign countries.
- ❖ Differences in local economic conditions.
- ❖ Local governmental policies.



End of Chapter 9

