

# ACCTG 2200: Q&A Ch. 8 - 11

Dr. Morris

HKUST

## Chapter 8 Questions

## What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards

## What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.
- ▶ A conservative budget may set high inventory standards, higher cost standards and lower sales standards

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.
- ▶ A conservative budget may set high inventory standards, higher cost standards and lower sales standards
  - ▶ Inventory is costly and risky (may never sell).

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.
- ▶ A conservative budget may set high inventory standards, higher cost standards and lower sales standards
  - ▶ Inventory is costly and risky (may never sell).
  - ▶ Lower profits.

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.
- ▶ A conservative budget may set high inventory standards, higher cost standards and lower sales standards
  - ▶ Inventory is costly and risky (may never sell).
  - ▶ Lower profits.
- ▶ The best strategy is to start conservative and increase efficiency over time (lower inventory and cost while maintaining quality)

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.
- ▶ A conservative budget may set high inventory standards, higher cost standards and lower sales standards
  - ▶ Inventory is costly and risky (may never sell).
  - ▶ Lower profits.
- ▶ The best strategy is to start conservative and increase efficiency over time (lower inventory and cost while maintaining quality)
  - ▶ Also maintain plans for "Black Swans"

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.
- ▶ A conservative budget may set high inventory standards, higher cost standards and lower sales standards
  - ▶ Inventory is costly and risky (may never sell).
  - ▶ Lower profits.
- ▶ The best strategy is to start conservative and increase efficiency over time (lower inventory and cost while maintaining quality)
  - ▶ Also maintain plans for "Black Swans"
  - ▶ We want to arrive at a set of standards that are as close to reality as possible.

# What is a 'conservative' budget

- ▶ An aggressive budget might set very low cost standards and high sales standards
  - ▶ Often thought to be motivational
  - ▶ Can lead to bad outcomes, insufficient inventories, low quality inputs and outputs, employee turnover, unhappy customers, product recalls.
- ▶ A conservative budget may set high inventory standards, higher cost standards and lower sales standards
  - ▶ Inventory is costly and risky (may never sell).
  - ▶ Lower profits.
- ▶ The best strategy is to start conservative and increase efficiency over time (lower inventory and cost while maintaining quality)
  - ▶ Also maintain plans for "Black Swans"
  - ▶ We want to arrive at a set of standards that are as close to reality as possible.
  - ▶ This includes building in safety and continuous improvement (sales, profit, costs, quality)

# Do all firms budget?

- ▶ Yes.

## Do all firms budget?

- ▶ Yes.
- ▶ Some less formally

# What order do we budget in?

- ▶ Sales

## What order do we budget in?

- ▶ Sales
- ▶ Production

## What order do we budget in?

- ▶ Sales
- ▶ Production
- ▶ Direct Materials

## What order do we budget in?

- ▶ Sales
- ▶ Production
- ▶ Direct Materials
- ▶ Direct labor

## What order do we budget in?

- ▶ Sales
- ▶ Production
- ▶ Direct Materials
- ▶ Direct labor
- ▶ Overheads

## What order do we budget in?

- ▶ Sales
- ▶ Production
- ▶ Direct Materials
- ▶ Direct labor
- ▶ Overheads
- ▶ Summarize to total manufacturing costs

## What order do we budget in?

- ▶ Sales
- ▶ Production
- ▶ Direct Materials
- ▶ Direct labor
- ▶ Overheads
- ▶ Summarize to total manufacturing costs
- ▶ SG&A

## What order do we budget in?

- ▶ Sales
- ▶ Production
- ▶ Direct Materials
- ▶ Direct labor
- ▶ Overheads
- ▶ Summarize to total manufacturing costs
- ▶ SG&A
- ▶ Then the financial budgets (cash and financing)

## What about unexpected expenses?

- ▶ These are variances, and

## What about unexpected expenses?

- ▶ These are variances, and
- ▶ this is why we have things like cash reserves and lines of credit.

## Chapter 9 Questions

- ▶ Worth reviewing the algebra of variances and the price/quantity graph I shared.

What is the difference between the master and flexible budgets?

- ▶ The sales forecast.

## What is the difference between the master and flexible budgets?

- ▶ The sales forecast.
- ▶ We set up the master budget based on our sales forecast

## What is the difference between the master and flexible budgets?

- ▶ The sales forecast.
- ▶ We set up the master budget based on our sales forecast
- ▶ The flexible budget is simply the set of budgets that arise when we plug in any arbitrary numbers for sales.

## What is the difference between the master and flexible budgets?

- ▶ The sales forecast.
- ▶ We set up the master budget based on our sales forecast
- ▶ The flexible budget is simply the set of budgets that arise when we plug in any arbitrary numbers for sales.
- ▶ We use the flexible budget for calculating variances by plugging the actual sales into the flexible budget.

# Why not use actual costing?

- ▶ Because time travel is hard.

# Why not use actual costing?

- ▶ Because time travel is hard.
- ▶ Actual costing doesn't allow us to plan for the future, only record the past.

## Does fixed overhead variance matter?

- ▶ Unused capacity is costly, but gives us flexibility.

## Does fixed overhead variance matter?

- ▶ Unused capacity is costly, but gives us flexibility.
- ▶ Checking this variance allows us to understand how unused capacity is impacting our profitability.

## Does fixed overhead variance matter?

- ▶ Unused capacity is costly, but gives us flexibility.
- ▶ Checking this variance allows us to understand how unused capacity is impacting our profitability.
- ▶ Should inform mid- and long-term decisions.

## Chapter 10 Questions

# What is transfer pricing for?

- ▶ When decision making is decentralized we need to track the flow and creation of value throughout the company

# What is transfer pricing for?

- ▶ When decision making is decentralized we need to track the flow and creation of value throughout the company
- ▶ We use transfer pricing to record the transfer of value between divisions of a company

# What is transfer pricing for?

- ▶ When decision making is decentralized we need to track the flow and creation of value throughout the company
- ▶ We use transfer pricing to record the transfer of value between divisions of a company
  - ▶ Allows us to understand what happens when the retail store sells at a discount (doesn't change the value of the product, just the retail margin)

## ROI vs. Residual Income

- ▶ These measure fundamentally different things.

# ROI vs. Residual Income

- ▶ These measure fundamentally different things.
- ▶ ROI measures how quickly a particular project generates income.

## ROI vs. Residual Income

- ▶ These measure fundamentally different things.
- ▶ ROI measures how quickly a particular project generates income.
- ▶ Residual income compares income to the hurdle rate.

## Chapter 11 Questions