

ACCTG 2200: Q&A Ch. 8 - 11

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HKUST

Chapter 8 Questions

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 - ▶ 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.

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- ▶ Yes.
- ▶ Some less formally

What order do we budget in?

- ▶ Sales

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- ▶ Summarize to total manufacturing costs
- ▶ SG&A
- ▶ Then the financial budgets (cash and financing)

What about unexpected expenses?

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- ▶ 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.

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- ▶ 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?

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- ▶ Actual costing doesn't allow us to plan for the future, only record the past.

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- ▶ 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?

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- ▶ 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)

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- ▶ ROI measures how quickly a particular project generates income.
- ▶ Residual income compares income to the hurdle rate.

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