ALBERT PARK SUPPLY

Accounting 2300 - Project 2

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QUESTION 1

A master budget is a layout of the company's sales, production, and financial goals. It involves a cash budget, budgeted income statement, and a budgeted balance sheet.

1. The first step within the master budget is the sales budget. A sales budget is a detailed schedule that shows the expected sale for the budgeted period. This is the most important part of a master budget. The sales budget then influences the variable part of the selling and administrative expense. Then that feeds into the production budget. If the sales forecast is inaccurate, the entire budget gets affected.
2. The production budget defines how many units we need to produce during the budgeting period to meet the forecasted sales. This is used to determine the direct material, direct labor, and manufacturing overhead budget.
3. Once the firm has these three things, then they can prepare the ending goods inventory budget.
4. The master budget ends with the cash budget, which includes information from the sales budget, selling and administrative expense budget, and the manufacturing cost budget. The cash budget provides how the cash resources will be used and how the firm gets the cash i.e cash inflows and outflows.
5. The budgeted income statement gives an estimate of the net income for the period and how it relies on the information from the sales budget, ending good inventory, selling and administrative expense budget, and the cash budget. The final thing in the master budget is the budgeted balance sheet. This gives the firm an estimate of the company's assets, liabilities, and stockholder equity.

Purpose of the master budget: It helps the manager or even the organization to see the "big picture items". It gives answers to crucial questions like what the sales would be, how much manufacturing cost will we incur, how much net operating income will we earn and so on. It gives us an idea of expenses, revenue, assets, and liabilities for the upcoming period(s) in a detailed way.

The second thing to remember is that the budgets are prepared on a variety of estimates and assumptions. For example, the sales forecasted is an estimate, its accuracy depends on what information we have from previous periods, what is the expectation of senior leadership, which forecasting method is chosen etc. The master budget will help the manager see whether estimates and assumptions are helpful or are causing issues.

QUESTION 2

INCOME STATEMENT		Source:
For the month of December		
Sales	$ 450,000.00	Given
Cost of Goods Sold	$ 337,500.00	75% * $450,000
Gross Margin	**$ 112,500.00**	Sales – Cost of Goods Sold
Expenses:		
Uncollectible Allowance	$ 9,000.00	2% * $450,000
Depreciation	$ 18,000.00	Given
Other	$ 28,600.00	Given
Total Expenses	**$ 55,600.00**	
NOI	**$ 56,900.00**	Gross Margin – Total Expenses

QUESTION 3

CASH BUDGET	November	December
Beginning cash balance	$ 29,000.00	$ 114,400.00
Cash receipts:		
Collections from sales	$ 383,000.00	$ 429,500.00
Total Cash Available	**$ 412,000.00**	**$ 543,900.00**
Cash disbursements:		
Purchases	$ 269,000.00	$ 310,500.00
Other expenses	$ 28,600.00	$ 28,600.00
Total Cash disbursements:	**$ 297,600.00**	**$ 339,100.00**
Excess/deficiency of cash	$ 114,400.00	$ 204,800.00
Ending Cash Balance	**$ 114,400.00**	**$ 204,800.00**

Step-By Step input of the amounts

1. $29,000 given from October balance sheet
2. Cash Collections

CASH COLLECTIONS FROM SALES	November	December
Accounts Receivable	$ 83,000.00	
November Sales	$ 300,000.00	$ 92,000.00
December sales		$ 337,500.00
TOTAL CASH COLLECTED	$ 383,000.00	$ 429,500.00

- ✓ Accounts Receivable from October Balance Sheet = $83,000
- ✓ November Sales

  Collected Month of = 75% * $400,000 = $300,000

  Collected Next Month = 25% * $400,000 = $92,000
- ✓ December Sales

  Collected Month Of = 75% * $450,000 = $337,500

3. Merchandise Purchases Schedule

MERCHANDISE PURCHASES	November	December	January
Budgeted Cost of Goods sold	$ 300,000.00	$ 337,500.00	$ 288,750.00
Purchases for month prior	$ 94,500.00	$ 80,850.00	
Purchases in month	$ 216,000.00	$ 243,000.00	
TOTAL MERCH PURCHASES	$ 310,500.00	$ 323,850.00	

- ✓ Budgeted Cost of Goods Sold = 75% * Sales

  November = 75% * $400,000

  December = 75% * $450,000
- ✓ Purchases for month prior = 28% * next month cost of goods sold

  November = 28% * $337,500 = $94,500

  December = 28% * $288,750
- ✓ Purchases in month = 72% * current month cost of goods sold

  November = 72% * $300,000 = $216,000

  December = 72% * $337,500 = $243,000

4. Cash Disbursements Schedule

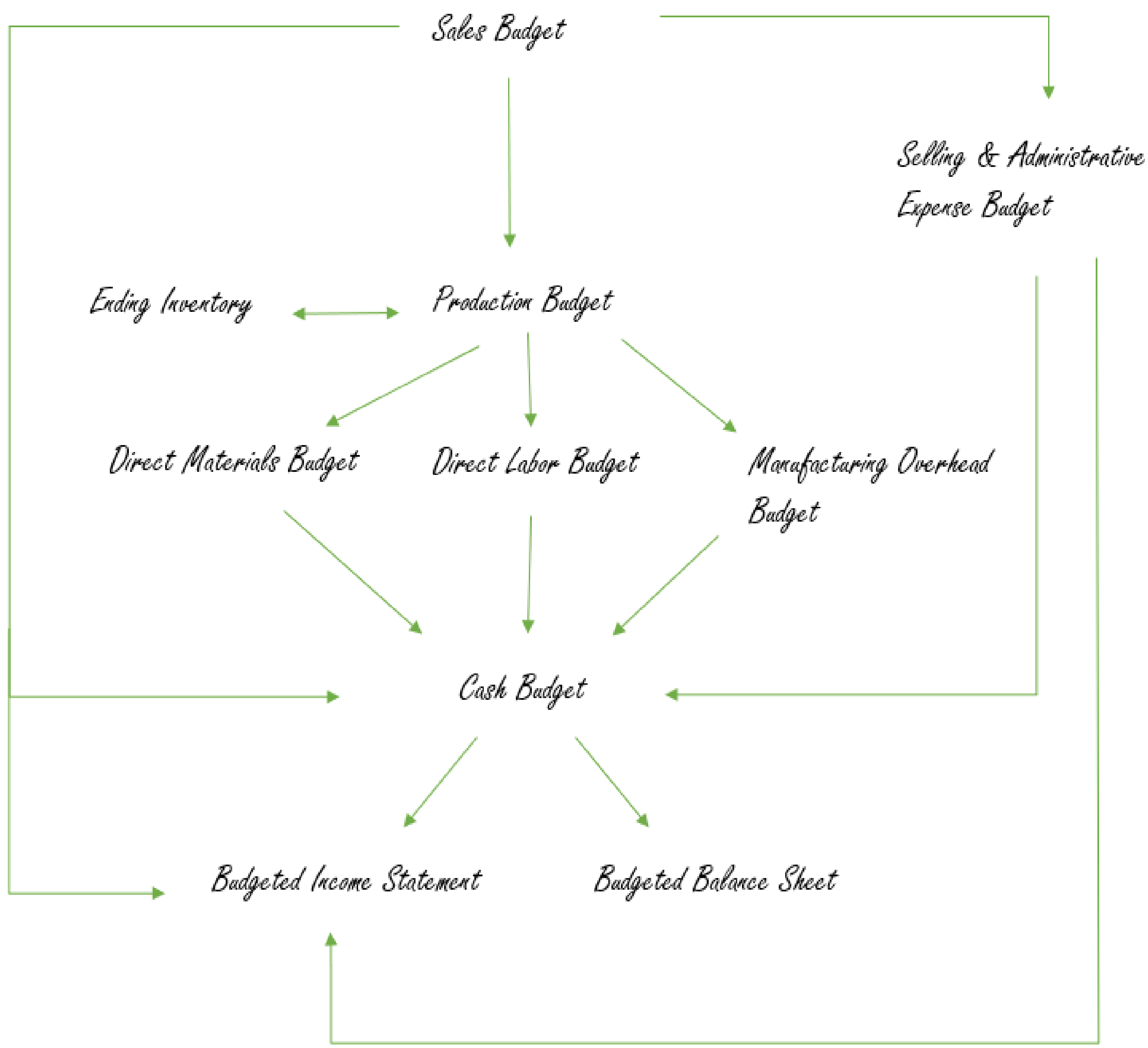
CASH DISBURSEMENTS	November	December
Accounts Payable	$ 269,000.00	
November purchases		$ 310,500.00
Total Cash disbursements	$ 269,000.00	$ 310,500.00

- ✓ Accounts Payable = From October Balance sheet
- ✓ November Purchases = From Merchandise Purchases Schedule

5. Other Expenses, Given $28,600
6. Excess/Deficiency of cash = Total Cash Available – Total Cash Disbursements
7. Beginning Cash Balance December = Ending Cash Balance November = $114,400

QUESTION 4

The Budget data goes through a type of integrated business plan – The master budget.



1. The sales budget gives a detailed schedule of the expected sales for the budget period.
2. We use the budgeted sales to predict estimated cost of goods sold, selling & administrative expenses, estimated cash collections based on sales, prepare income statements, and most importantly – prepare the production budget.
3. The production budget helps us create budgets for direct materials, direct labor, and manufacturing overhead. We can then determine the desired ending finished goods inventory purchased, either as a percentage of cost of goods sold or production needs of the period after.
    a. NOTE: In case of merchandising companies, we prepare merchandise purchases budget which in turn helps determine cash disbursements.
4. Sales, Selling & Administrative expense, manufacturing cost budegts all influence the Cash budget. The cash budget details the plan for all cash inflows & outflows. We can have separate schedules for cash collections and cash disbursements which help form the cash budget.
5. Towards the end, we prepare the budgeted income statement and budgeted balance sheet. The budgeted income statement takes amounts like forecasted sales, budgeted cost of goods sold, busgeted selling expenses etc. The budgeted balance sheet would show what is the expected accounts payable, ending cash balance from the cash budget, assets minus depreciation etc.

The participants in the budgeting process can vary by organization depending on the type of budgeting process they choose. In case of self-imposed/participative budget will include managers of all levels preparing the budget with collaboration and cooperation.

However, with a top-down method, top-level managers prepare the budget by first issuing profit targets. Lower-level managers are directed to prepare budgets that meet those targets. For example, the president/CEO might work with other executives to set the budget for sales. The next level of departmental managers will prepare production budget, selling & administrative expense etc. There is not much collaboration in this method and might demoralize the low-level managers as their opinions and knowledge are not being considered.

QUESTION 5

Responsibility accounting is the practice of holding individual managers responsible for the budget aspects that are within their jurisdiction and general control. This allows for specific review of responsibility centers (the part of the company that the manager has control over and is accountable for profit) in the budgeting process. A manager should be held responsible for those items, only those items, that he/she can actually control to a significant extent. For example, the production budget – direct materials, direct labor, and the manufacturing overhead budgets should be the responsibility of the production manager to estimate as accurately as possible. He/she cannot be held responsible for items like cash collections.

When reviewing activity, revenue, and cost variances, this method allows for a specific person to be an expert on each aspect of the budget. This creates a system of accountability among managers. It also helps more participation and collaboration among departments. When a certain component of the business is not performing on par, they are able to isolate the issue and resolve it effectively.

One way to encourage accountability and even promote growth, is through performance-based compensation. When managers are paid more generously based on how well they adhere to or outperform a budget, they may be more incentivized to meet the overall goals of the company. At the end, responsibility accounting makes accounting "personalized" by holding individuals responsible for revenues and costs.