

Budgeting Basics

Budget	Advantages	Not a substitute for management
Formal written statement of management's plan	Requires to plan ahead	Need for defined authority and responsibility
Way to communicate objectives to all the company	Creates early warning for issues	Research and Analysis help create realistic goals
Tools to promote efficiency and discourage waste	Facilitates coordination	Must be accepted by all
Basis for performance evaluation	Motivates employees	

Budgeting Process

Sales Forecast

- Include potential sales for industry
- Consider economy, technology, market, advertising
- Assigned to budget committee
- Can inspire additional effort
- Each level of management should participate

Participative Budgeting

- Bottom-up approach
- To produce a fair and achievable budget
- Process seen as more fair
- Can be costly and time consuming

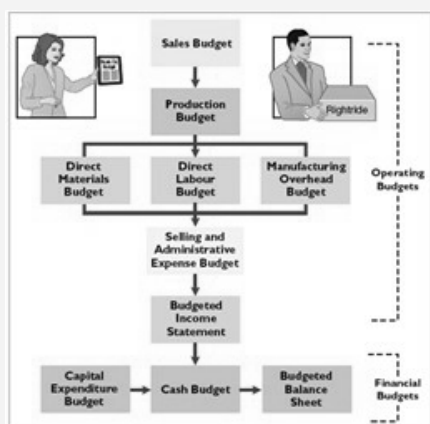
Master Budget

Set of interrelated budgets that constitute a plan of action

Contains 2 categories:

Operating Budgets	Financial Budgets
Individual budgets that prepare income statement	- Budgets that focus on cash needs
	- Uses information from operating budgets

Operating/Financial Budget



Operating Budget

Sequence of Budget Preparation

1. Sales Budget
2. Production Budget
3. DM - DL - MOH budgets
4. S&A Expense Budget
5. Budgeted Income Statement

Sales Budget

Expected Unit Sales Volume x Anticipated Unit Selling Price

Drives all other Operating Budgets

Production Budget

Required Prod. = Expected Sales Units + Desired End. FG - Beg. FG

Only includes units

DM Budget

Units of DM to meet production and inventory

- Units to produce x DM Unit

DM to be purchased

- DM Unit required + Desired End. DM - Beg. DM

Cost of DM to be purchased

- DM Unit to purchase x Cost per DM Unit

DL Budget

Total DL Cost = Units to be produced x DL Hours per Unit x DL cost per hour

