ACCT 102 – Fundamentals of Accounting II
Chapter 20 – Master Budgets and Performance Planning

A budget charts a course for a business by outlining the plans of the business in financial terms.

Objectives of a budget:

- establish specific goals
- execute plans to achieve those goals
- periodically comparing actual results with the goals

Budgeting Systems

Budgets are usually prepared in one-year increments.

Static Budget – Shows results at only one activity level. Once the budget has been determined, it is not changed even if the activity changes.

Flexible Budget – a series of static budgets for several activity levels.

Operating Budgets

Sales Budget: Quantity of Estimated Sales x Expected Unit Selling Price

Direct Materials (Merchandise) Purchase Budget (Merchandisers)
Production Budget/Manufacturing Budget (Manufacturers):

	Next Month's Budgeted Sales
x	Ratio of inventory to next month's sales
=	Budgeted Ending Inventory
+	Budgeted Sales for the Month
=	Required units available in inventory
-	Beginning materials inventory
=	Budgeted Merchandise Purchases

Selling Expense Budget and General & Administrative Expense Budget

Financial Budgets

Cash Budget: presents the expected receipts and payments of cash for a period of time.

	Beginning Cash Balance
+	Cash Receipts
=	Total Cash Available
–	Cash Payments
=	Ending Cash Balance