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

<u>Budgeting Systems</u>

Budgets are usually prepared in one-year increments.

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

<u>Flexible Budget</u> – a series of static budgets for several activity levels.

<u>Operating Budgets</u>

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

Selling Expense Budget and General & Administrative Expense Budget

<u>Financial Budgets</u>

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

	Beginning Cash Balance
+	<u>Cash Receipts</u>
=	Total Cash Available
–	<u>Cash Payments</u>
=	Ending Cash Balance