

Budgeting

3rd Edition

Steven M. Bragg

Table of Contents

Chapter 1 – Introduction to Budgeting	1
Learning Objectives	1
Introduction.....	1
The Advantages of Budgeting.....	1
The Disadvantages of Budgeting	2
Capital Budgeting Problems.....	3
The Command and Control System	4
Behavioral Impacts	4
Bureaucratic Support	5
Information Sharing.....	5
Chapter Summary.....	6
Review Questions.....	7
Review Answers	8
Chapter 2 – Cost-Volume-Profit Analysis.....	9
Learning Objectives	9
Introduction.....	9
Contribution Margin	9
Contribution Margin Income Statement.....	10
Breakeven Point	11
Margin of Safety	13
Cost-Volume-Profit Analysis	14
Sales Mix.....	16
Chapter Summary.....	17
Review Questions.....	18
Review Answers	19
Chapter 3 – The System of Budgets	20
Learning Objectives	20
Introduction.....	20
The System of Budgets.....	20
The System of Budgets for a Multi-Division Company	23
Operating Decisions Impacting the System of Budgets.....	24
The Reasons for Budget Iterations.....	25
The Number of Budget Scenarios	25
Chapter Summary.....	26
Review Questions.....	28
Review Answers	29
Chapter 4 – The Revenue Budget	30
Learning Objectives	30
Introduction.....	30
Overview of the Revenue Budget.....	30
The Detailed Revenue Budget	31
Responsibility for Revenue Information	32
Sources of Revenue Information.....	33
The Impact of Pacing on the Revenue Budget	35
The Inherent Variability of the Revenue Budget.....	36
Chapter Summary.....	36
Review Questions.....	37
Chapter 5 – The Ending Finished Goods Inventory Budget.....	39
Learning Objectives	39
Introduction.....	39

Table of Contents

Ending Inventory Assumptions.....	39
Impact of Changes in Ending Inventory.....	40
The Ending Finished Goods Inventory Budget	40
Chapter Summary.....	42
Review Questions.....	43
Review Answers	44
Chapter 6 – The Production Budget	45
Learning Objectives	45
Introduction.....	45
The Production Budget	45
Other Production Budget Issues	46
Budgeting for Multiple Products	47
Chapter Summary.....	48
Review Questions.....	49
Review Answers	50
Chapter 7 – The Direct Materials Budget.....	51
Learning Objectives	51
Introduction.....	51
The Direct Materials Budget (Roll up Method)	51
The Direct Materials Budget (Historical Method).....	53
The Direct Materials Budget (80/20 Method)	53
Anomalies in the Direct Materials Budget	54
The Role of the Direct Materials Budget.....	55
Chapter Summary.....	55
Review Questions.....	57
Review Answers	58
Chapter 8 – The Direct Labor Budget	59
Learning Objectives	59
Introduction.....	59
The Direct Labor Budget (Traditional Method).....	59
The Direct Labor Budget (Crewing Method)	60
The Direct Labor Budget for Manufacturing Cells	61
The Cost of Direct Labor	62
Anomalies in the Direct Labor Budget	62
Summary.....	63
Review Questions.....	64
Review Answers	65
Chapter 9 – The Manufacturing Overhead Budget.....	66
Learning Objectives	66
Introduction.....	66
The Manufacturing Overhead Budget.....	66
Overhead Allocation between Periods.....	67
Additional Issues	68
Chapter Summary.....	69
Review Questions.....	70
Review Answers	71
Chapter 10 – The Cost of Goods Sold Budget	72
Learning Objectives	72
Introduction.....	72
The Cost of Goods Sold Budget.....	72
Chapter Summary.....	73

Table of Contents

Review Questions.....	74
Review Answers	75
Chapter 11 – The Sales and Marketing Budget.....	76
Learning Objectives	76
Introduction.....	76
Types and Timing of Sales and Marketing Expenses	76
Structure of the Sales and Marketing Budget	77
Sources of Sales and Marketing Expense Information.....	79
Analysis of the Sales and Marketing Budget.....	80
Diminishing Returns Analysis.....	81
Sales and Marketing Pacing	81
The Impact of Bottlenecks on the Sales and Marketing Budget	82
Sales and Marketing Metrics.....	83
Chapter Summary.....	85
Review Questions.....	87
Review Answers	88
Chapter 12 – The Research and Development Budget.....	89
Learning Objectives	89
Introduction.....	89
General Funding for Research and Development.....	89
Research and Development Funding Decisions	89
Expected Commercial Value.....	90
Project Risk	91
Project Selection Issues.....	91
The Project Failure Rate	93
Structure of the Research and Development Budget.....	94
Ongoing Project Analysis.....	95
Research and Development Measurements.....	96
Treatment of Cancelled Projects	97
Chapter Summary.....	97
Review Questions.....	98
Review Answers	99
Chapter 13 – The Administration Budget.....	100
Learning Objectives	100
Introduction.....	100
The Administration Budget.....	100
Cost Variability in the Administration Budget	102
Allocation of Administration Expenses.....	102
Service-Based Costing	103
Chapter Summary.....	103
Review Questions.....	104
Review Answers	105
Chapter 14 – The Capital Budget.....	106
Learning Objectives	106
Introduction.....	106
Overview of Capital Budgeting	106
Bottleneck Analysis.....	107
Net Present Value Analysis.....	107
The Payback Method	109
Capital Budget Proposal Analysis	110
The Outsourcing Decision.....	111
The Capital Budgeting Application Form	112
The Post Installation Review.....	114

Table of Contents

The Lease versus Buy Decision.....	115
Capital Budgeting with Minimal Cash	116
Chapter Summary.....	117
Review Questions.....	118
Review Answers	119
Chapter 15 – The Compensation Budget.....	120
Learning Objectives	120
Introduction.....	120
The Compensation Budget	120
The Treatment of Hourly Pay and Overtime	122
The Benefits Budget	123
The Headcount Budget.....	124
The Link between Budgets and Bonus Compensation.....	124
Chapter Summary.....	126
Review Questions.....	127
Review Answers	128
Chapter 16 – The Master Budget	129
Learning Objectives	129
Introduction.....	129
The Budgeted Income Statement.....	129
Components of the Budgeted Balance Sheet.....	130
Accounts Receivable	130
Inventory.....	132
Fixed Assets	133
Accounts Payable.....	134
Additional Estimation Elements	135
The Cash Line Item.....	136
The Financing Budget.....	137
The Budgeted Balance Sheet	138
Accompanying Documentation.....	139
Chapter Summary.....	140
Review Questions.....	141
Review Answers	142
Chapter 17 – Nonprofit Budgeting	143
Learning Objectives	143
Introduction.....	143
The Revenue Budget.....	143
The Management and Administration Budget.....	144
The Fundraising Budget.....	145
Program and Grant Budgets	146
Chapter Summary.....	146
Review Questions.....	148
Review Answers	148
Chapter 18 – Flexible Budgeting.....	149
Learning Objectives	149
Introduction.....	149
The Flexible Budget.....	149
The Flexible Budget Variance	150
Advantages of Flexible Budgeting	151
Disadvantages of Flexible Budgeting	151
Chapter Summary.....	152
Review Questions.....	153
Review Answers	154

Table of Contents

Chapter 19 – Cost Variability	155
Learning Objectives	155
Introduction.....	155
Mixed Costs.....	155
Labor-Based Fixed Costs.....	156
Costs Based on Purchase Quantities.....	157
Costs Based on Production Batch Sizing	158
Cost Based on Step Costs.....	158
Time-Based Costs	159
Experience-Based Costs.....	159
Incorporating Cost Variability into Reports.....	161
Chapter Summary.....	163
Review Questions.....	164
Review Answers	165
Chapter 20 – The Zero-Base Budget.....	166
Learning Objectives	166
Introduction.....	166
Incremental Budgeting	166
Overview of Zero-Base Budgeting.....	167
The Zero-Base Budgeting Process	168
Step 1 – Develop Decision Packages.....	168
Step 2 – Rank Decision Packages	171
Advantages of Zero-Base Budgeting.....	173
Problems with Zero-Base Budgeting	173
Conditional Budgeting.....	174
Chapter Summary.....	175
Review Questions.....	176
Review Answers	177
Chapter 21 – Operating without a Budget	178
Learning Objectives	178
Introduction.....	178
Alternatives to the Budget.....	178
Forecasting without a Budget.....	179
Capital Budgeting	180
Goal Setting without a Budget.....	181
Strategy without a Budget	182
Management Guidelines	183
The Role of Senior Management.....	183
Corporate Staff Roles	184
Board Approvals	185
Compensation without a Budget	185
Controls without a Budget	187
Behavioral Norms	187
Profit Knowledge	187
Information Exchange	188
Hiring, Promotions, and Continuity	188
Customer Ownership	188
Service Center Pricing	189
Accounting Reports	189
Transfer Pricing	190
Investor Relations	191
Implementation of the No-Budget Environment	191
Chapter Summary.....	191
Review Questions.....	193
Review Answers	194

Table of Contents

Chapter 22 – The Rolling Forecast	195
Learning Objectives	195
Introduction.....	195
The Rolling Forecast Process	195
The Rolling Forecast Format.....	196
Continuous Budgeting.....	198
Chapter Summary.....	199
Review Questions.....	200
Review Answers	201
Chapter 23 – Budgeting Procedures.....	202
Learning Objectives	202
Introduction.....	202
Procedure—Formulation of the Budget	202
Procedure—Issue Budget Variance Reports	204
Procedure—Subsequent Account Changes	204
Chapter Summary.....	205
Review Questions.....	206
Review Answers	207
Chapter 24 – Budgeting Efficiencies	208
Learning Objectives	208
Introduction.....	208
Budget Model Efficiencies.....	208
Spreadsheet Error Checking	208
Verification Opportunities	210
Simplification Opportunities.....	211
Simplification over Time	211
Budgeting Process Efficiencies	212
Participative Budgeting	212
Chapter Summary.....	213
Review Questions.....	214
Review Answers	215
Chapter 25 – Budget Reporting	216
Learning Objectives	216
Introduction.....	216
General Reporting Format	216
Revenue Reporting.....	218
Selling Price Variance.....	218
Sales Volume Variance.....	218
Overview of Cost of Goods Sold Variance Reporting.....	219
The Purchase Price Variance.....	220
Material Yield Variance	221
Labor Rate Variance.....	222
Labor Efficiency Variance	222
Variable Overhead Spending Variance	223
Variable Overhead Efficiency Variance	224
Fixed Overhead Spending Variance	224
Problems with Variance Analysis	225
Which Variances to Report	225
How to Report Variances	226
Chapter Summary.....	227
Review Questions.....	228
Review Answers	229

Table of Contents

Chapter 26 – Budgeting Controls	230
Learning Objectives	230
Introduction.....	230
Budget Creation Controls.....	230
Budget Integration Controls	231
Chapter Summary.....	232
Review Questions.....	233
Review Answers	234
Appendix – Sample Budget.....	235
Glossary.....	241
Index	247