

Budgeting

4th 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.....	15
Chapter Summary.....	16
Review Questions.....	18
Review Answers	19
Chapter 3 – The System of Budgets	21
Learning Objectives	21
Introduction.....	21
The System of Budgets.....	21
The System of Budgets for a Multi-Division Company	24
Operating Decisions Impacting the System of Budgets.....	25
The Reasons for Budget Iterations	26
The Number of Budget Scenarios	26
Chapter Summary.....	27
Review Questions.....	28
Review Answers	29
Chapter 4 – The Revenue Budget	31
Learning Objectives	31
Introduction.....	31
Overview of the Revenue Budget.....	31
The Detailed Revenue Budget	32
Responsibility for Revenue Information	33
Sources of Revenue Information	34
The Impact of Pacing on the Revenue Budget.....	36
The Inherent Variability of the Revenue Budget.....	37
Chapter Summary.....	37
Review Questions.....	38
Review Answers	39
Chapter 5 – The Ending Finished Goods Inventory Budget.....	41
Learning Objectives	41
Introduction.....	41

Table of Contents

Ending Inventory Assumptions.....	41
Impact of Changes in Ending Inventory.....	42
The Ending Finished Goods Inventory Budget.....	42
Chapter Summary.....	44
Review Questions.....	45
Review Answers	46
Chapter 6 – The Production Budget	47
Learning Objectives	47
Introduction.....	47
The Production Budget	47
Other Production Budget Issues.....	48
Budgeting for Multiple Products.....	49
Chapter Summary.....	50
Review Questions.....	51
Review Answers	52
Chapter 7 – The Direct Materials Budget.....	53
Learning Objectives	53
Introduction.....	53
The Direct Materials Budget (Roll up Method)	53
The Direct Materials Budget (Historical Method).....	55
The Direct Materials Budget (80/20 Method)	55
Anomalies in the Direct Materials Budget.....	56
The Role of the Direct Materials Budget.....	57
Chapter Summary.....	58
Review Questions.....	59
Review Answers	60
Chapter 8 – The Direct Labor Budget	61
Learning Objectives	61
Introduction.....	61
The Direct Labor Budget (Traditional Method).....	61
The Direct Labor Budget (Crewing Method)	62
The Direct Labor Budget for Manufacturing Cells	63
The Cost of Direct Labor	64
Anomalies in the Direct Labor Budget	64
Chapter Summary.....	65
Review Questions.....	66
Review Answers	67
Chapter 9 – The Manufacturing Overhead Budget.....	69
Learning Objectives	69
Introduction.....	69
The Manufacturing Overhead Budget.....	69
Overhead Allocation between Periods.....	70
Additional Issues.....	71
Chapter Summary.....	72
Review Questions.....	73
Review Answers	74
Chapter 10 – The Cost of Goods Sold Budget	75
Learning Objectives	75
Introduction.....	75
The Cost of Goods Sold Budget.....	75
Chapter Summary.....	76
Review Questions.....	77
Review Answers	78

Table of Contents

Chapter 11 – The Sales and Marketing Budget.....	79
Learning Objectives	79
Introduction.....	79
Types and Timing of Sales and Marketing Expenses.....	79
Structure of the Sales and Marketing Budget	80
Sources of Sales and Marketing Expense Information.....	82
Analysis of the Sales and Marketing Budget.....	83
Diminishing Returns Analysis.....	84
Sales and Marketing Pacing.....	84
The Impact of Bottlenecks on the Sales and Marketing Budget	85
Sales and Marketing Metrics	86
Chapter Summary.....	88
Review Questions.....	89
Review Answers	90
Chapter 12 – The Research and Development Budget.....	91
Learning Objectives	91
Introduction.....	91
General Funding for Research and Development.....	91
Research and Development Funding Decisions	91
Expected Commercial Value.....	92
Project Risk	93
Project Selection Issues.....	93
The Project Failure Rate	95
Structure of the Research and Development Budget.....	96
Ongoing Project Analysis.....	97
Research and Development Measurements.....	98
Treatment of Canceled Projects.....	99
Chapter Summary.....	99
Review Questions.....	100
Review Answers	101
Chapter 13 – The Administration Budget.....	103
Learning Objectives	103
Introduction.....	103
The Administration Budget.....	103
Cost Variability in the Administration Budget	105
Allocation of Administration Expenses.....	105
Service-Based Costing	106
Chapter Summary.....	106
Review Questions.....	107
Review Answers	108
Chapter 14 – The Capital Budget.....	109
Learning Objectives	109
Introduction.....	109
Overview of Capital Budgeting	109
Capacity Expansion Strategy	110
Capacity Reduction Strategy	111
Risk Levels	111
Additional Risk Factors for International Investments.....	112
Bottleneck Analysis.....	113
Net Present Value Analysis.....	113
The Payback Method	115
Capital Budget Proposal Analysis	116
The Outsourcing Decision.....	117
The Capital Budgeting Application Form	118

Table of Contents

The Post Installation Review	120
The Lease versus Buy Decision	121
Capital Budgeting with Minimal Cash	121
Chapter Summary.....	122
Review Questions.....	123
Review Answers	124
Chapter 15 – The Compensation Budget.....	125
Learning Objectives	125
Introduction.....	125
The Compensation Budget	125
The Treatment of Hourly Pay and Overtime	127
The Benefits Budget	128
The Headcount Budget	129
The Link between Budgets and Bonus Compensation.....	129
Chapter Summary.....	131
Review Questions.....	132
Review Answers	133
Chapter 16 – The Master Budget	135
Learning Objectives	135
Introduction.....	135
The Budgeted Income Statement.....	135
Components of the Budgeted Balance Sheet.....	136
Accounts Receivable	136
Inventory.....	138
Fixed Assets	139
Accounts Payable	140
Additional Estimation Elements.....	141
The Cash Line Item	142
The Financing Budget.....	143
The Budgeted Balance Sheet	144
Accompanying Documentation.....	145
Chapter Summary.....	146
Review Questions.....	147
Review Answers	148
Chapter 17 – Nonprofit Budgeting.....	149
Learning Objectives	149
Introduction.....	149
The Revenue Budget.....	149
The Management and Administration Budget.....	150
The Fundraising Budget.....	151
Program and Grant Budgets	152
Chapter Summary.....	152
Review Questions.....	153
Review Answers	154
Chapter 18 – Flexible Budgeting.....	155
Learning Objectives	155
Introduction.....	155
The Flexible Budget.....	155
The Flexible Budget Variance	156
Advantages of Flexible Budgeting	157
Disadvantages of Flexible Budgeting	157
Chapter Summary.....	158
Review Questions.....	159
Review Answers	160

Table of Contents

Chapter 19 – Cost Variability	161
Learning Objectives	161
Introduction.....	161
Mixed Costs.....	161
Labor-Based Fixed Costs.....	162
Costs Based on Purchase Quantities	163
Costs Based on Production Batch Sizing	164
Cost Based on Step Costs	164
Time-Based Costs	165
Experience-Based Costs.....	165
Incorporating Cost Variability into Reports.....	167
Chapter Summary.....	169
Review Questions.....	170
Review Answers	171
Chapter 20 – The Zero-Base Budget.....	173
Learning Objectives	173
Introduction.....	173
Incremental Budgeting	173
Overview of Zero-Base Budgeting.....	174
The Zero-Base Budgeting Process.....	175
Step 1 – Develop Decision Packages.....	175
Step 2 – Rank Decision Packages	178
Advantages of Zero-Base Budgeting.....	180
Problems with Zero-Base Budgeting	180
Conditional Budgeting.....	181
Chapter Summary.....	182
Review Questions.....	183
Review Answers	184
Chapter 21 – Operating without a Budget	185
Learning Objectives	185
Introduction.....	185
Alternatives to the Budget.....	185
Forecasting without a Budget.....	186
Capital Budgeting	187
Goal Setting without a Budget.....	188
Strategy without a Budget.....	189
Management Guidelines	190
The Role of Senior Management.....	190
Corporate Staff Roles	191
Board Approvals	191
Compensation without a Budget.....	192
Controls without a Budget.....	194
Behavioral Norms	194
Profit Knowledge.....	194
Information Exchange	195
Hiring, Promotions, and Continuity	195
Customer Ownership	195
Service Center Pricing	196
Accounting Reports	196
Transfer Pricing	197
Investor Relations.....	197
Implementation of the No-Budget Environment	198
Chapter Summary.....	198
Review Questions.....	200
Review Answers	201

Table of Contents

Chapter 22 – The Rolling Forecast	203
Learning Objectives	203
Introduction.....	203
The Rolling Forecast Process	203
The Rolling Forecast Format.....	204
Continuous Budgeting.....	206
Chapter Summary.....	207
Review Questions.....	208
Review Answers	209
Chapter 23 – Budgeting Procedures.....	211
Learning Objectives	211
Introduction.....	211
Procedure – Formulation of the Budget.....	211
Procedure – Issue Budget Variance Reports.....	213
Procedure – Subsequent Account Changes	213
Chapter Summary.....	214
Review Questions.....	215
Review Answers	216
Chapter 24 – Budgeting Efficiencies	217
Learning Objectives	217
Introduction.....	217
Budget Model Efficiencies.....	217
Spreadsheet Error Checking.....	217
Verification Opportunities	219
Simplification Opportunities.....	219
Simplification Over Time	220
Budgeting Process Efficiencies	220
Participative Budgeting	221
Chapter Summary.....	222
Review Questions.....	223
Review Answers	224
Chapter 25 – Budget Reporting	225
Learning Objectives	225
Introduction.....	225
General Reporting Format	225
Revenue Reporting.....	227
Selling Price Variance.....	227
Sales Volume Variance.....	227
Overview of Cost of Goods Sold Variance Reporting.....	228
The Purchase Price Variance.....	229
Material Yield Variance	230
Labor Rate Variance.....	231
Labor Efficiency Variance	232
Variable Overhead Spending Variance.....	232
Variable Overhead Efficiency Variance	233
Fixed Overhead Spending Variance.....	233
Problems with Variance Analysis	234
Which Variances to Report	235
How to Report Variances	235
Chapter Summary.....	236
Review Questions.....	237
Review Answers	238
Chapter 26 – Budgeting Controls	239
Learning Objectives	239

Table of Contents

Introduction.....	239
Budget Creation Controls.....	239
Budget Integration Controls.....	240
Chapter Summary.....	241
Review Questions.....	242
Review Answers	243
Appendix – Sample Budget.....	245
Glossary.....	251
Index	257