

# Budgets – A – Intro

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# Budgets – A - Intro

- Depending on who you want to talk to you will hear that the two main reasons businesses fail are:
  1. Fail to manage cash appropriately, and
  2. Failure to budget.
- There is an interesting relationship here, both are budgeting and cash related.

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- In many companies budgeting is that practice other people do and no one pays attention to.
- After all, they do not pay attention to my work, why should I pay attention to theirs?
- Budgeting is planning and the lack of planning is the fastest way to failure.
- So .... BUDGET and utilize it roadmap to success.

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- Budgeting is a powerful reason to learn a numbers manipulation application such as Microsoft Excel.
- Budgeting is forecasting and planning.
- Budgeting is adding, subtracting, multiplying, dividing, and working with percentages.

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- In this subject matter I have several presentations since it is a rather long chain related problem.
- The length will normally scare many away.
- However, it is a one step at a time process, you are given the pieces one at a time and that is how you assemble it, one step at a time.

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- Back in the days of old a company figured out what it could make and then asked the sales force if they could sell it.
- If the answer was yes, the discussion was closed.
- Times have changed.
- Now we ask the sales force what they expect to sell and then we figure out how to make it.

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- As such the first budget to be made is the Sales Budget.
- If we know what we expect to sell, we know what we expect to need to manufacture.
- If we know what we expect to manufacture, we know what direct materials we expect to need.
- If we know what we expect to manufacture, we know what direct labor we expect to need.

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- If we know what we expect to need to manufacture, we know that factory or manufacturing overhead we expect to incur.
- If we know our expected sales we can predict our cash inflows.
- If we know our expected purchases we can predict our cash out flows.



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- So, how many budgets will we need?
- A budget to answer every question any manager asks.
- However, to make the budget provided more usable we are going to tailor the report to the reader.
- Sales does not care about raw materials and direct labor issues, why present that (useless to them) information to them?

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- So every budget will present the appropriate information to the reader / user.
- This increases the probability that the target reader will utilize the budget provided.
- **HOWEVER**, to ease our workload, every budget is based on the same information and flow of values.

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- Therefore, we are extracting the relevant information to the reader from a full budget rather than creating a budget for each reader.
- The general order of budgets is logical –
  1. Sales Budget,
  2. Production Budget,
  3. Direct Materials Budget,
  4. Direct Labor Budget,

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5. Manufacturing Overhead Budget,
  6. Operating Expense Budget,
  7. Cash Collections Budget,
  8. Cash Payments Budget, and
  9. Cash Budget.
- Into the mix we insert Capital / Equipment Expenditure Budgets, Cash Flow Budgets, and pro forma (forecast) financial statements among other items.

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- Budgeting is a 1) planning, 2) directing, 3) control, and 4) feedback device.
- A budget tells you what you wanted to do, what you are doing, and what you are capable of doing.
- The keys to success, one step at a time.
- These presentations are in an order of Budgets – A - Intro, Budgets – B – Sales Budget, Budgets – C – Production Budget, etc. to keep them short.

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- There is a common format you are going to see, possibly modified at points.

A		Beginning balance	10
B	+	Increases	<u>19</u>
C	=	Available	29
D	-	Used	<u>24</u>
E	=	Ending balance	<u><u>5</u></u>

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- The reference files are provided for your utilization.
- Here is some quick looks at some of the budgets we will work with.
- No detail in these quick looks.

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- Sales Budget: (Budget – B – Sales)

<b>Miramar Merchandising Services, Inc.</b>					
<b>Sales Budget</b>					
<b>For the Quarter ending March 31, 2015</b>					
		<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Sales in cases: (quantity)		4,000	4,150	4,025	12,175
Sales price per case:		\$37.50	\$37.50	\$37.50	\$37.50
Total sales revenues:		\$150,000.00	\$155,625.00	\$150,937.50	\$456,562.50
Type of Sale:					
Cash:	15%	\$22,500.00	\$23,343.75	\$22,640.63	\$68,484.38
Credit:	85%	127,500.00	132,281.25	128,296.88	\$388,078.13
Total sales revenues:		\$150,000.00	\$155,625.00	\$150,937.50	\$456,562.50



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- Production Budget: (Budget – C – Production)

<b>Miramar Merchandising Services, Inc.</b>				
<b>Production Budget</b>				
<b>For the Quarter ending March 31, 2015</b>				
	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Sales in cases: (quantity)	4,000	4,150	4,025	12,175
Plus: Desired ending inventory	623	604	619	619
Total cases needed:	4,623	4,754	4,644	12,794
Less: Beginning inventory:	600	623	604	600
Number of cases to be produced:	4,023	4,131	4,040	12,194

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- Direct Materials Budget: (Budget – D – Direct Materials)

<b>Miramar Merchandising Services, Inc.</b>				
<b>Direct Materials Budget</b>				
<b>For the Quarter ending March 31, 2015</b>				
	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Cases to be produced:	4,023	4,131	4,040	12,194
Pounds of DM per case:	5	5	5	5
Pounds needed for production:	20,113	20,656	20,200	60,969
Plus: Desired ending inventory	2,066	2,020	2,063	2,063
Total pounds needed:	22,178	22,676	22,263	63,031
Less: Pounds of beginning inventory	2,011	2,066	2,020	2,011
Quantity to be purchased:	20,167	20,611	20,243	61,020
Cost per pound:	\$2.25	\$2.25	\$2.25	\$2.25
Total cost of purchase:	\$45,375.47	\$46,373.91	\$45,545.63	\$137,295.00

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- Direct Labor Budget: (Budget – E – Direct Labor)

<b>Miramar Merchandising Services, Inc.</b>				
<b>Direct Labor Budget</b>				
<b>For the Quarter ending March 31, 2015</b>				
	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Cases to be produced:	4,023	4,131	4,040	12,194
Direct labor hours per case:	0.05	0.05	0.05	0.05
Total direct labor hours:	201	207	202	610
Direct labor hour cost:	\$22.00	\$22.00	\$22.00	\$22.00
Total direct labor cost:	\$4,424.75	\$4,544.38	\$4,444.00	\$13,413.13

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- Factory / Manufacturing Overhead Budget:  
(Budget – FOH – MOH Overhead)

<b>Miramar Merchandising Services, Inc.</b>				
<b>Factory / Manufacturing Overhead Budget</b>				
<b>For the Quarter ending March 31, 2015</b>				
	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Cases to be produced:	4,023	4,131	4,040	12,194
Variable costs:				
Indirect materials per case:	\$5,028.13	\$5,164.06	\$5,050.00	\$15,242.19
Indirect labor per case:	3,016.88	3,098.44	3,030.00	9,145.31
Indirect utilities per case:	2,011.25	2,065.63	2,020.00	6,096.88
<b>Total variable FOH/MOH costs</b>	<b>\$10,056.25</b>	<b>\$10,328.13</b>	<b>\$10,100.00</b>	<b>\$30,484.38</b>
Fixed costs:				
Depreciation on factory equipment	\$650.00	\$650.00	\$650.00	\$1,950.00
Insurance/taxes on factory:	375.00	375.00	375.00	1,125.00
Indirect labor - fixed cost:	185.00	185.00	185.00	555.00
Utilities - fixed cost:	400.00	400.00	400.00	1,200.00
<b>Total fixed costs:</b>	<b>\$1,610.00</b>	<b>\$1,610.00</b>	<b>\$1,610.00</b>	<b>\$4,830.00</b>
<b>Total FOH/MOH costs:</b>	<b>\$11,666.25</b>	<b>\$11,938.13</b>	<b>\$11,710.00</b>	<b>\$35,314.38</b>

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- Operating Expense Budget: (Budget – G – Operating Expenses)

<b>Miramar Merchandising Services, Inc.</b>				
<b>Operating Expense Budget</b>				
<b>For the Quarter ending March 31, 2015</b>				
	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Sales in cases:	4,000	4,150	4,025	12,175
Variable operating expenses:				
Sales commissions:	\$1,000.00	\$1,037.50	\$1,006.25	\$3,043.75
Shipping expenses:	3,000.00	3,112.50	3,018.75	9,131.25
Bad debt expense:	1,275.00	1,322.81	1,282.97	3,880.78
Total variable operating expens	\$5,275.00	\$5,472.81	\$5,307.97	\$16,055.78
Fixed operating expenses:	<b>January</b>	<b>February</b>	<b>March</b>	<b>Quarter</b>
Salaries:	\$40,000.00	\$40,000.00	\$40,000.00	\$120,000.00
Office rent:	8,000.00	8,000.00	8,000.00	24,000.00
Deprecation:	14,750.00	14,750.00	14,750.00	44,250.00
Advertising:	750.00	750.00	750.00	2,250.00
Communications:	275.00	275.00	275.00	825.00
Total fixed operating expenses:	\$63,775.00	\$63,775.00	\$63,775.00	\$191,325.00
Total operating expenses:	\$69,050.00	\$69,247.81	\$69,082.97	\$207,380.78

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- Cash Collections Budget: (Budget – H – Cash Collections)

Miramar Merchandising Services, Inc.									
Cash Collections Budget									
For the Quarter ending March 31, 2015									
Monthly Sales:	Cash collections:	November:	December:	January:	February:	March:	April:	Uncollectible	Total
	Cash sales	\$22,312.50	\$22,387.50	\$22,500.00	\$23,343.75	\$22,640.63	\$22,368.75		\$135,553.13
\$148,750.00	November credit sales collections	\$31,609.38	\$63,218.75	\$29,080.63				\$2,528.75	\$126,437.50
\$149,250.00	December credit sales collections		\$31,715.63	\$63,431.25	\$29,178.38			\$2,537.25	\$126,862.50
\$150,000.00	January credit sales collections			\$31,875.00	\$63,750.00	\$29,325.00		\$2,550.00	\$127,500.00
\$155,625.00	February credit sales collections				\$33,070.31	\$66,140.63	\$30,424.69	\$2,645.63	\$132,281.25
\$150,937.50	March credit sales collections					\$32,074.22	\$64,148.44	\$2,565.94	\$98,788.59
\$149,125.00	April credit sales collections						\$31,689.06	\$2,535.13	\$34,224.19
\$903,687.50	Month's totals	\$53,921.88	\$117,321.88	\$146,886.88	\$149,342.44	\$150,180.47	\$148,630.94	\$15,362.69	\$781,647.16

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- Cash Payments Budget: (Budget – I – Cash Payments)

<b>Miramar Merchandising Services, Inc.</b>				
<b>Cash Payments Budget</b>				
<b>For the Quarter ending March 31, 2015</b>				
	<b>January:</b>	<b>February:</b>	<b>March:</b>	<b>April:</b>
Direct materials payments in the month of use:	\$38,569.15	\$39,417.82	\$38,713.78	
Direct materials payments in the month following use:	2,150.00	6,806.32	6,956.09	6,831.84
Direct labor payments due in the month earned:	3,982.28	4,089.94	3,999.60	
Direct labor payments due in the month following the month earned:	215.00	442.48	454.44	444.40
FOH / MOH costs paid in the month incurred:	11,082.94	11,341.22	11,124.50	
FOH / MOH costs paid in the month following the month incurred:	1,725.00	583.31	596.91	585.50
Operating expenses paid in the month incurred:	65,597.50	65,785.42	65,628.82	
Operating expenses paid in the month following the month incurred:	1,985.00	3,452.50	3,462.39	3,454.15
<b>Total cash expected to be paid:</b>	<b>\$125,306.86</b>	<b>\$131,919.01</b>	<b>\$130,936.52</b>	

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- Cash Budget: (Budget – J – Cash Budget)

<b>Miramar Merchandising Services, Inc.</b>				
<b>Cash Budget</b>				
<b>For the Quarter ending March 31, 2015</b>				
	<b>January:</b>	<b>February:</b>	<b>March:</b>	<b>Total:</b>
Cash collections:	\$146,886.88	\$149,342.44	\$150,180.47	\$446,409.78
Cash payments:	125,306.86	131,919.01	130,936.52	388,162.39
Difference between cash collected and cash paid:	\$21,580.01	\$17,423.43	\$19,243.95	\$58,247.39



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- There is a fallacy in this textbook exercise trying to make the process simpler.
- Textbook companies only have one product which has only one material which as only one production step.
- The solution is to make one series of these budgets for each product.
- Then combine them into a larger budget.

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- The next recommended accounting presentation is Budgets – B – Sales Budgets.

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The end.