Profit Planning

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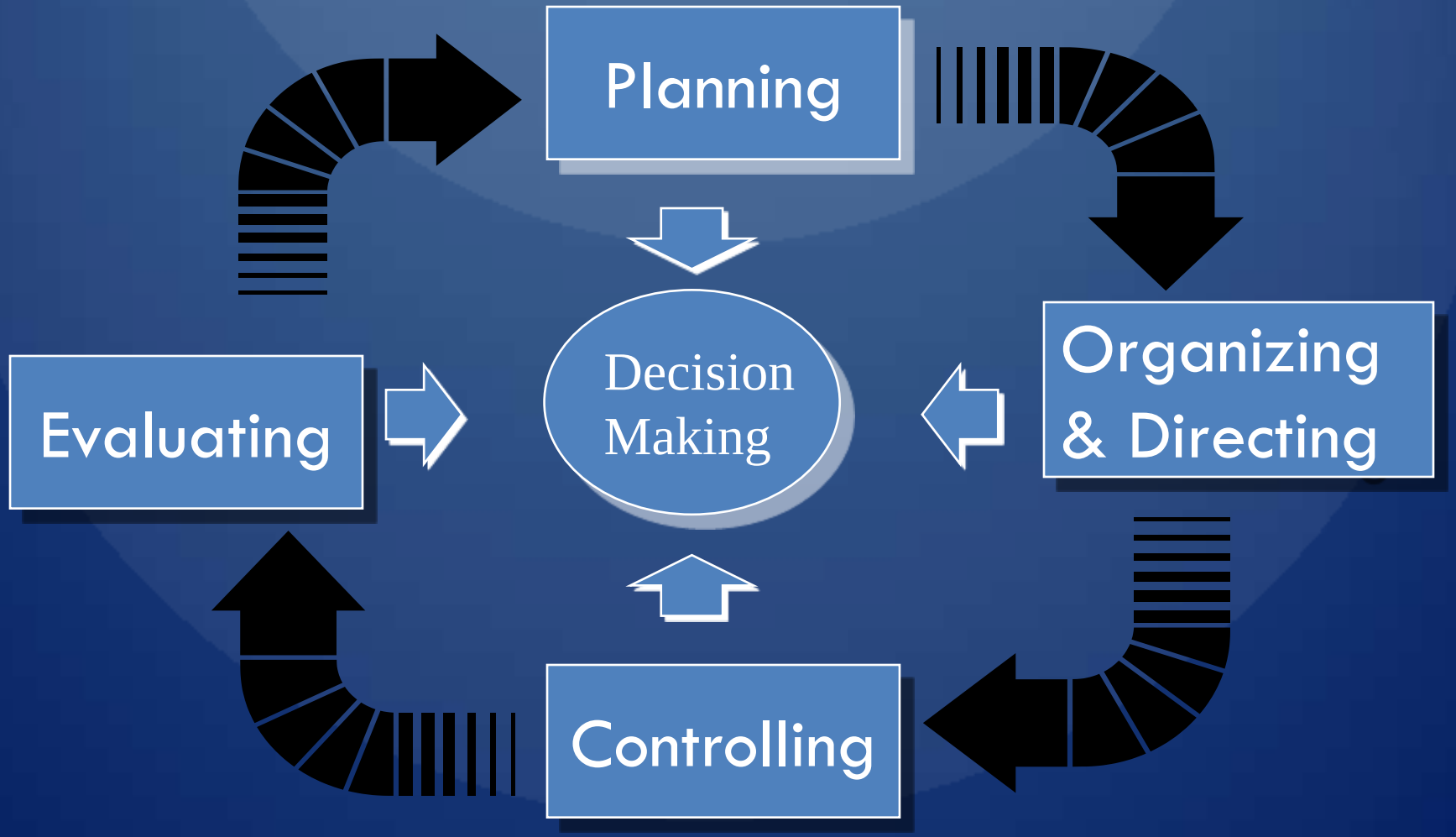
The Work of Management



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The Work of Management

Planning -- involves developing objectives and preparing various budgets to achieve these objectives.

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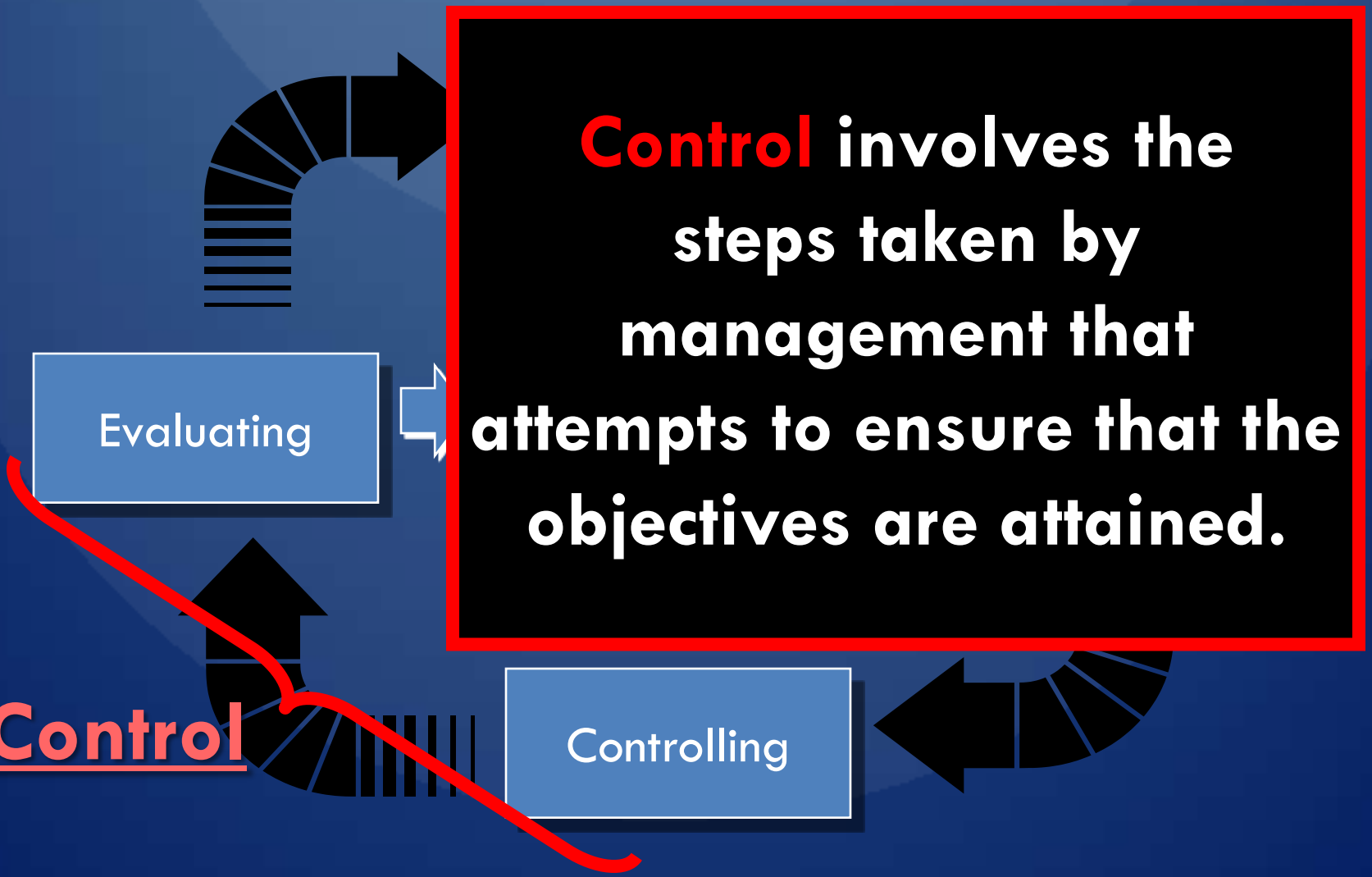
The Work of Management



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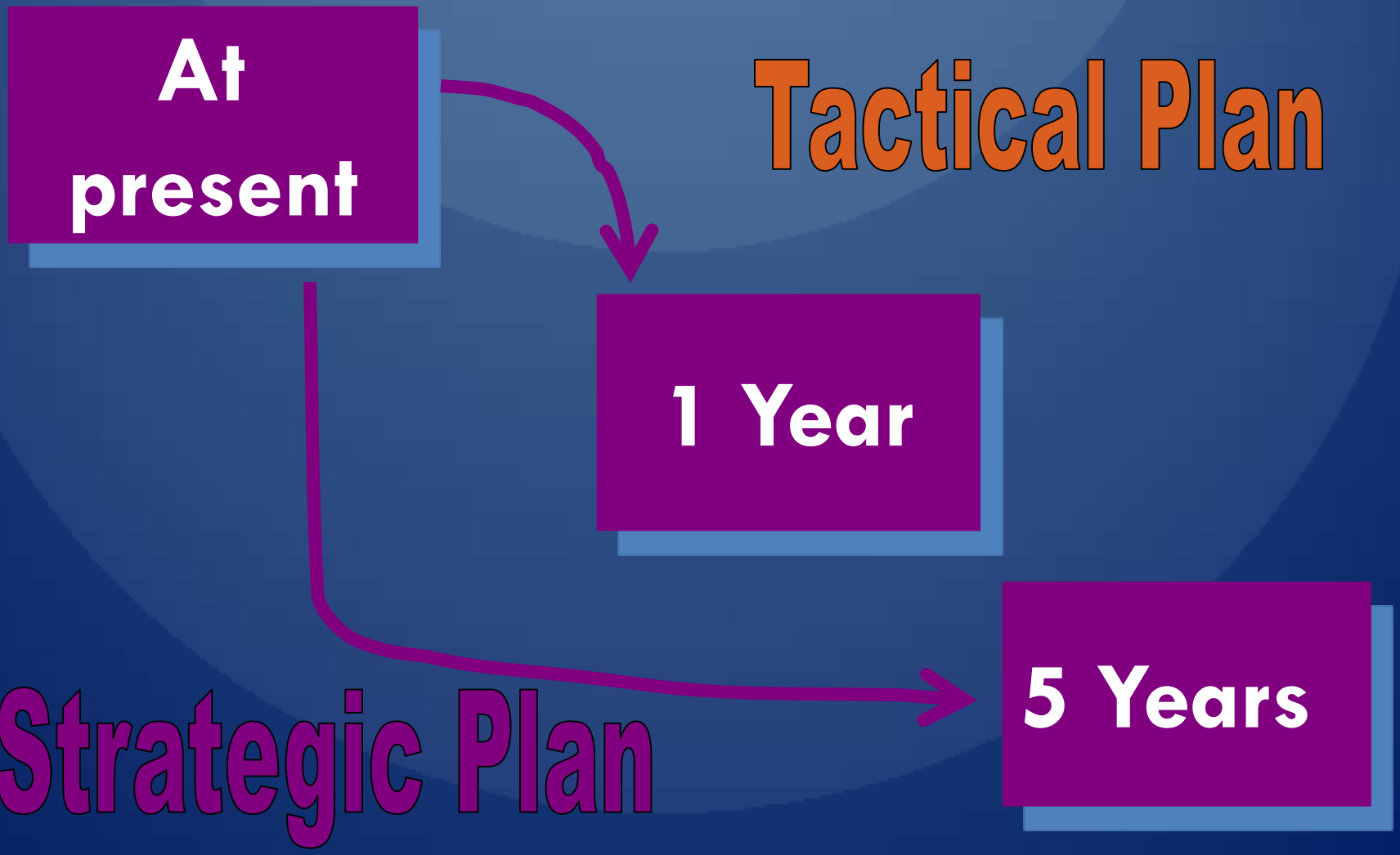
The Work of Management



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BUDGET

- detailed quantitative plan for acquiring and using financial and other resources over a specified forthcoming time period.

Budgeting - act of preparing a budget

Budgetary control - use of budgets to control an organization's activities

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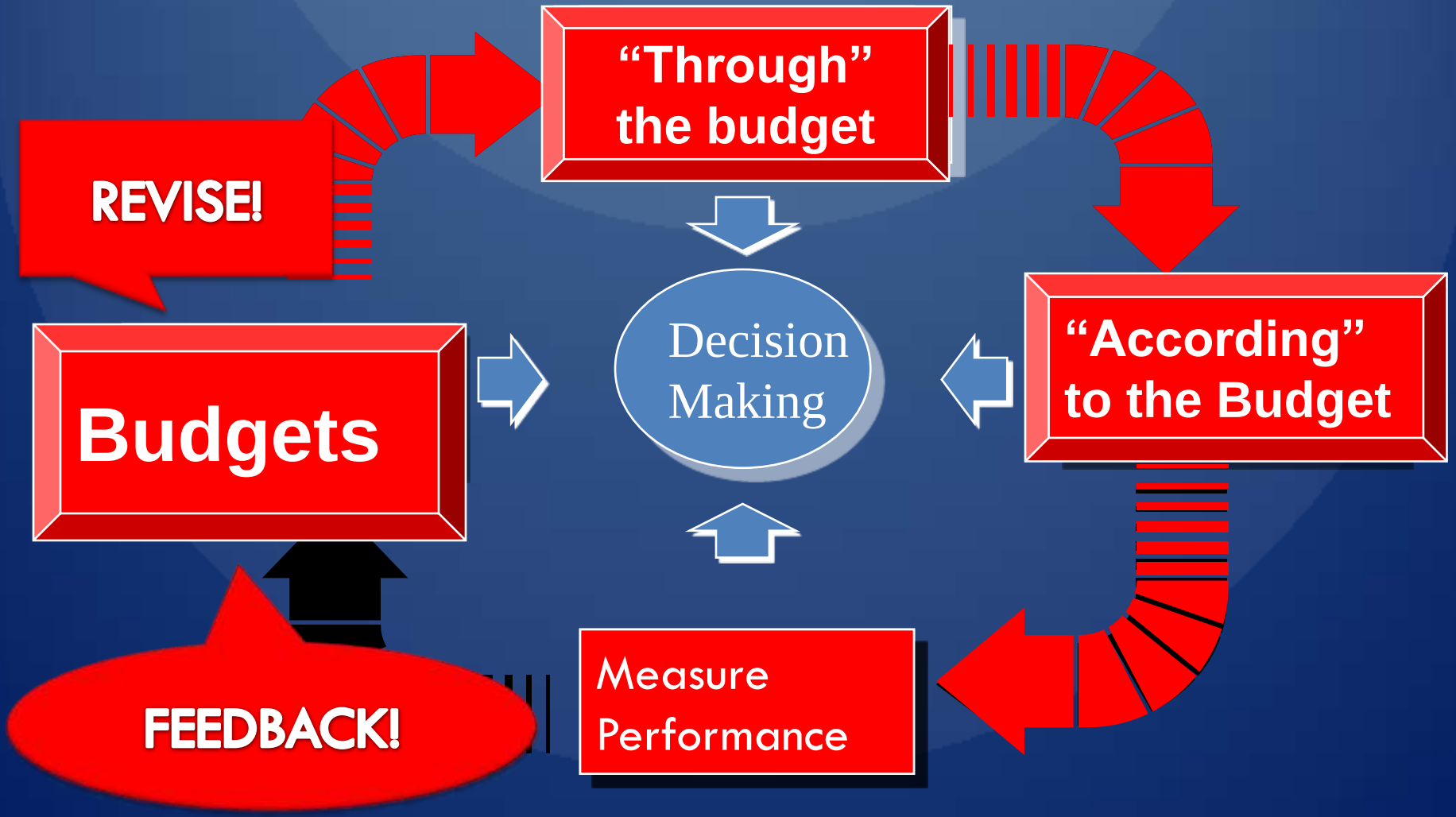
The Work of Management



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THE BUDGET COMMITTEE

A standing committee responsible for

- overall policy matters relating to the budget
- coordinating the preparation of the budget
- resolving disputes related to the budget
- approving the final budget

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ADVANTAGES OF BUDGETING

- Define goal and objectives
- Think about and plan for the future
- Means of allocating resources
- Uncover potential bottlenecks
- Coordinate activities
- Communicate plans

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Choosing the Budget Period

Operating Budget – maybe perpetual

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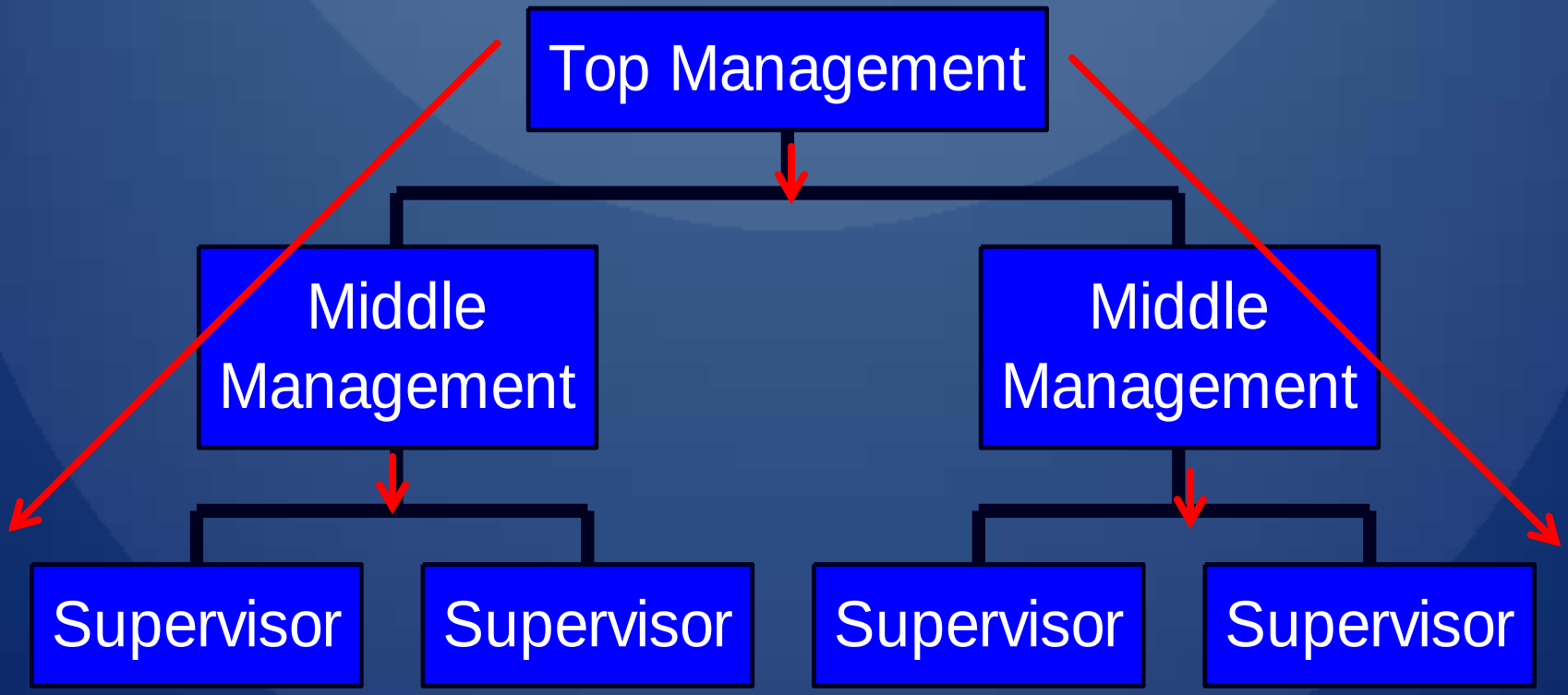
IMPOSED BUDGETS



Flow of Budget Data

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IMPOSED BUDGETS

- **Best used in:**
  - In well-established organizations.
  - In start-up organizations
  - In extremely small businesses
  - In times of economic crises
  - When operating managers lack budgetary skills or perspective.

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ADVANTAGES OF IMPOSED BUDGETS

- Requires less time.
- Utilize top management's knowledge of overall resource availability.
- Increase probability that the firm's strategic plans are incorporated.

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DISADVANTAGES OF IMPOSED BUDGETS

- Reduce feeling of teamwork.
- Dissatisfaction and low morale.
- Limited acceptance of stated goals and objectives.
- May stifle initiative of lower level managers.

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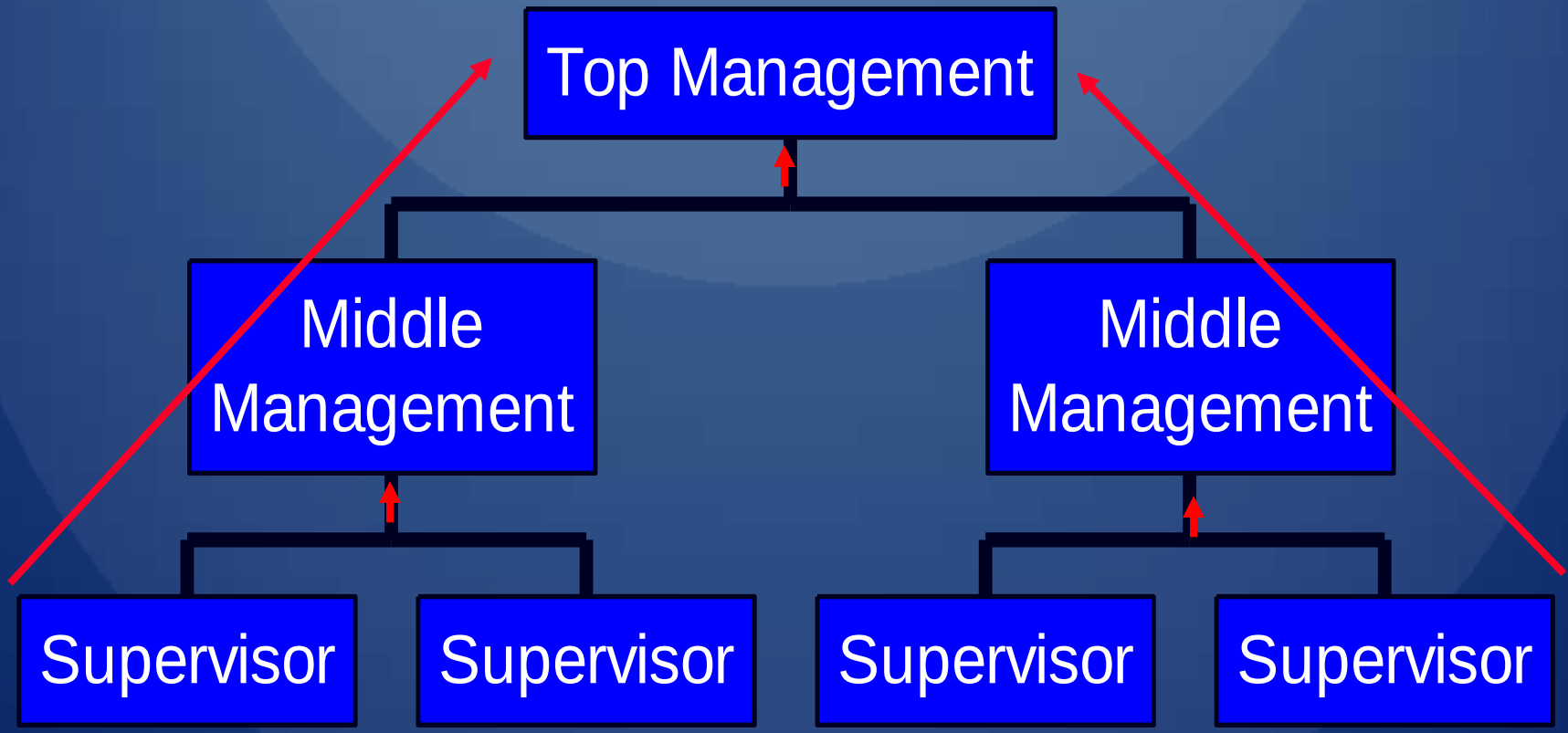
PARTICIPATORY BUDGETS



Flow of Budget Data

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PARTICIPATORY BUDGETS

Right to comment before implementation

Ultimate right to set budgets

Best used in:

- In well-established organizations.
- In extremely large businesses.
- In times of economic affluence.
- When operating managers have strong budgetary skills and perspectives.

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ADVANTAGES OF PARTICIPATORY BUDGETS

- Obtain information from those persons most familiar with the needs and constraints of the organizational units.
- Leads to better morale and higher motivation.
- Integrates knowledge that is diffused among various levels of management.
- Provides a means to develop fiscal responsibility and budgetary skills of employees.
- Develop a high degree of acceptance of and commitment to organizational goals and objectives by operating management.
- Are generally more realistic.

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DISADVANTAGES OF PARTICIPATORY BUDGETS

Require significantly more time.

May motivate managers to introduce “slack” into the budget.

May support “empire building” by subordinates.

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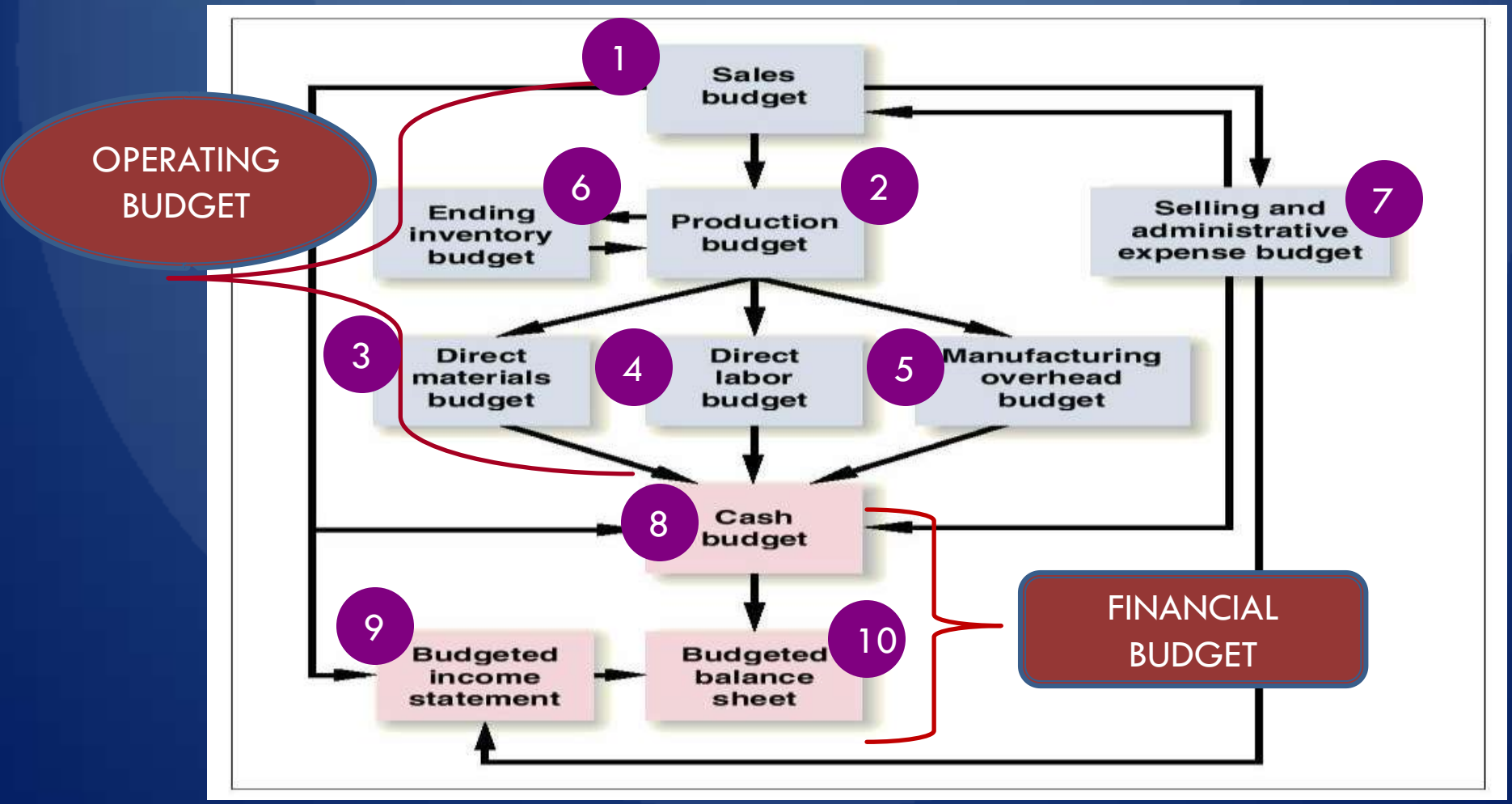
MASTER BUDGET



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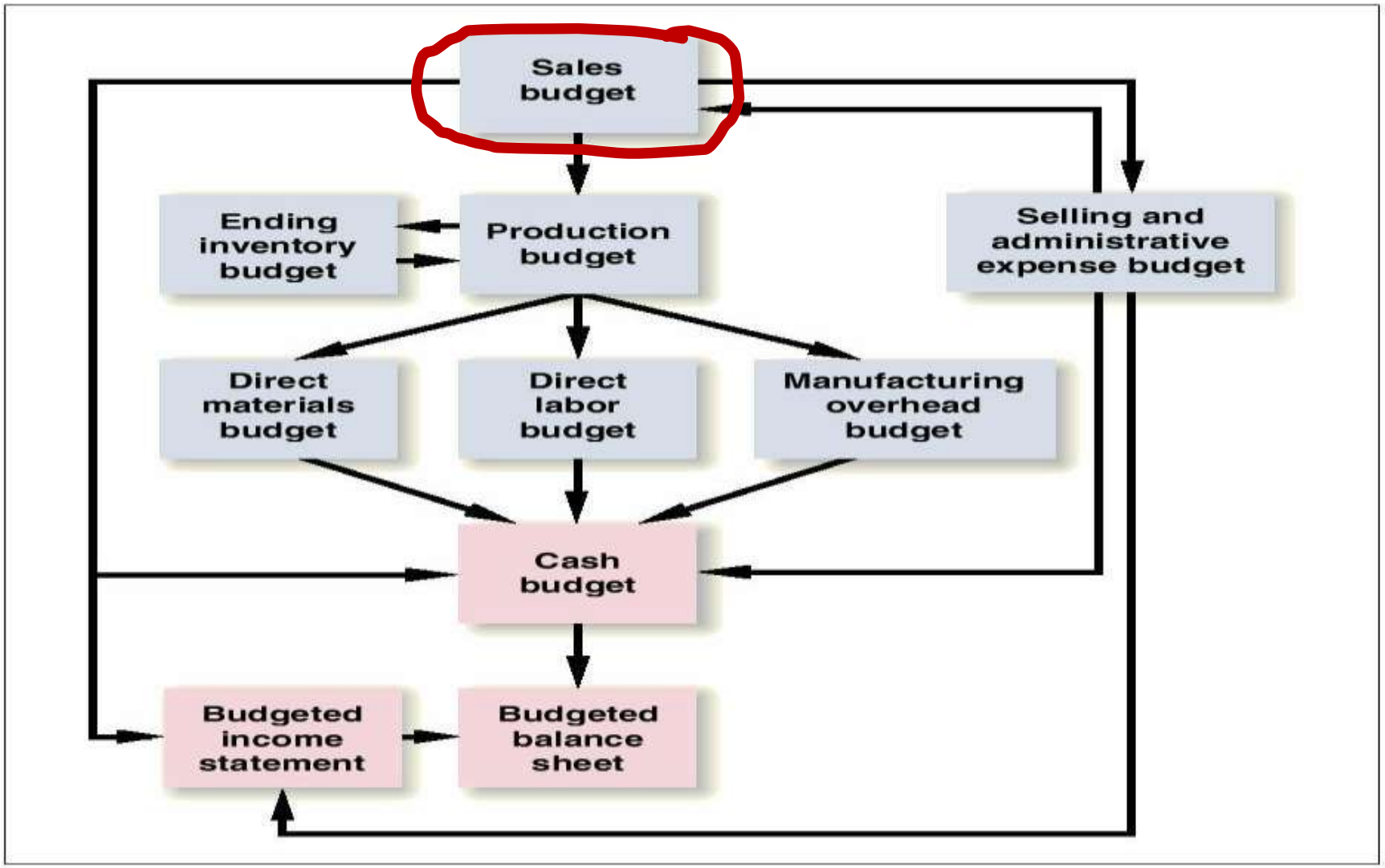
MASTER BUDGET



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SALES BUDGET

- Detailed schedule showing expected sales for the coming periods expressed in units and dollars.
- A budget showing the number of units, sales price and total sales for each quarter (or month).

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EXAMPLE
SALES BUDGET

- Sixer's Company is preparing budgets for the quarter ending June 30.
- Budgeted sales for the next five months are:
  - **April 20,000 units**
  - **May 50,000 units**
  - **June 30,000 units**
  - **July 25,000 units**
  - **August 15,000 units.**
- The selling price is $10 per unit.

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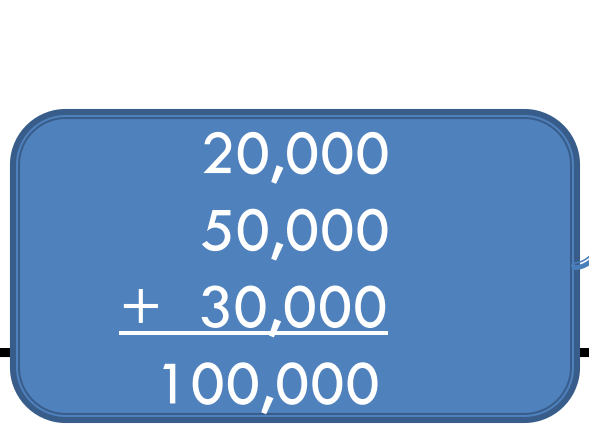
EXAMPLE SALES BUDGET

	April	May	June	Quarter
Budgeted sales (units)	20,000	50,000	30,000	100,000
Selling price per unit				
Total sales				



EXAMPLE SALES BUDGET

	April	May	June	Quarter
Budgeted sales (units)	20,000	50,000	30,000	100,000
Selling price per unit	$ 10			
Total sales	$200,000			

20,000
X $10
$200,000

EXAMPLE SALES BUDGET

	April	May	June	Quarter
Budgeted sales (units)	20,000	50,000	30,000	100,000
Selling price per unit	$ 10	$ 10	$ 10	$ 10
Total sales	$200,000	$500,000	$300,000	$1,000,000

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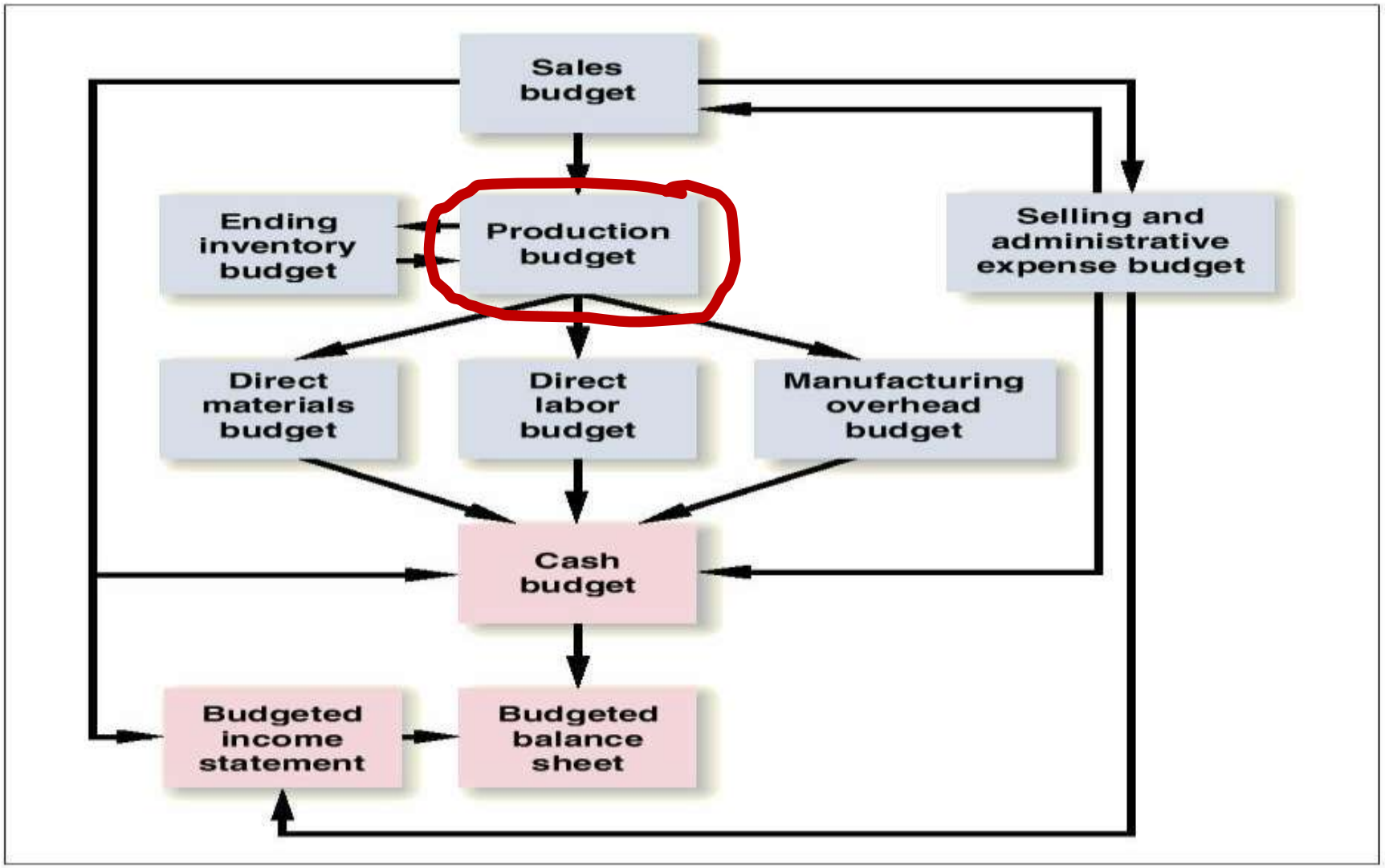
MASTER BUDGET



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PRODUCTION BUDGET

- A budget showing the number of units that must be produced during each budget period to meet sales needs and to provide for the desired ending inventory.

Finished Units to be Produced = Expected Sales in Units + Desired Ending Inventory of Finished Units - Beginning Inventory of Finished Units

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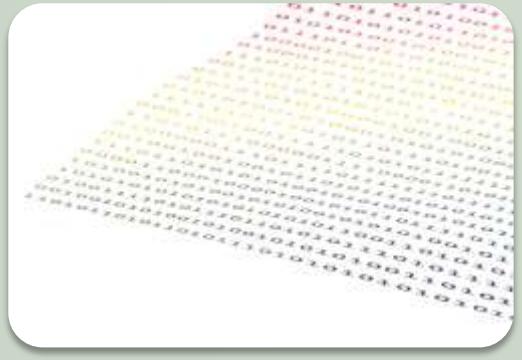
EXAMPLE PRODUCTION BUDGET



Sixer's Company wants ending inventory to be equal to 20% of the following month's budgeted sales in units.

On March 31, 4,000 units were on hand.

Let's prepare the production budget.

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EXAMPLE PRODUCTION BUDGET

	April	May	June	Quarter
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000			
Total needed	30,000			
Less beginning inventory	4,000			
Required production	26,000			

Budgeted sales	50,000
Desired percent	20%
Desired inventory	10,000

March 31 ending inventory

EXAMPLE PRODUCTION BUDGET

	April			er
Budgeted sales	20,000	[illegible]	30,000	100,000
Add desired ending inventory	10,000			
Total needed	30,000			
Less beginning inventory	4,000			
Required production	26,000			

1. Expected sales in units

2. Plus Desired Ending Inventory of finished units.

3. Less Beginning Inventory of finished units.

4. Equals finished units to be produced

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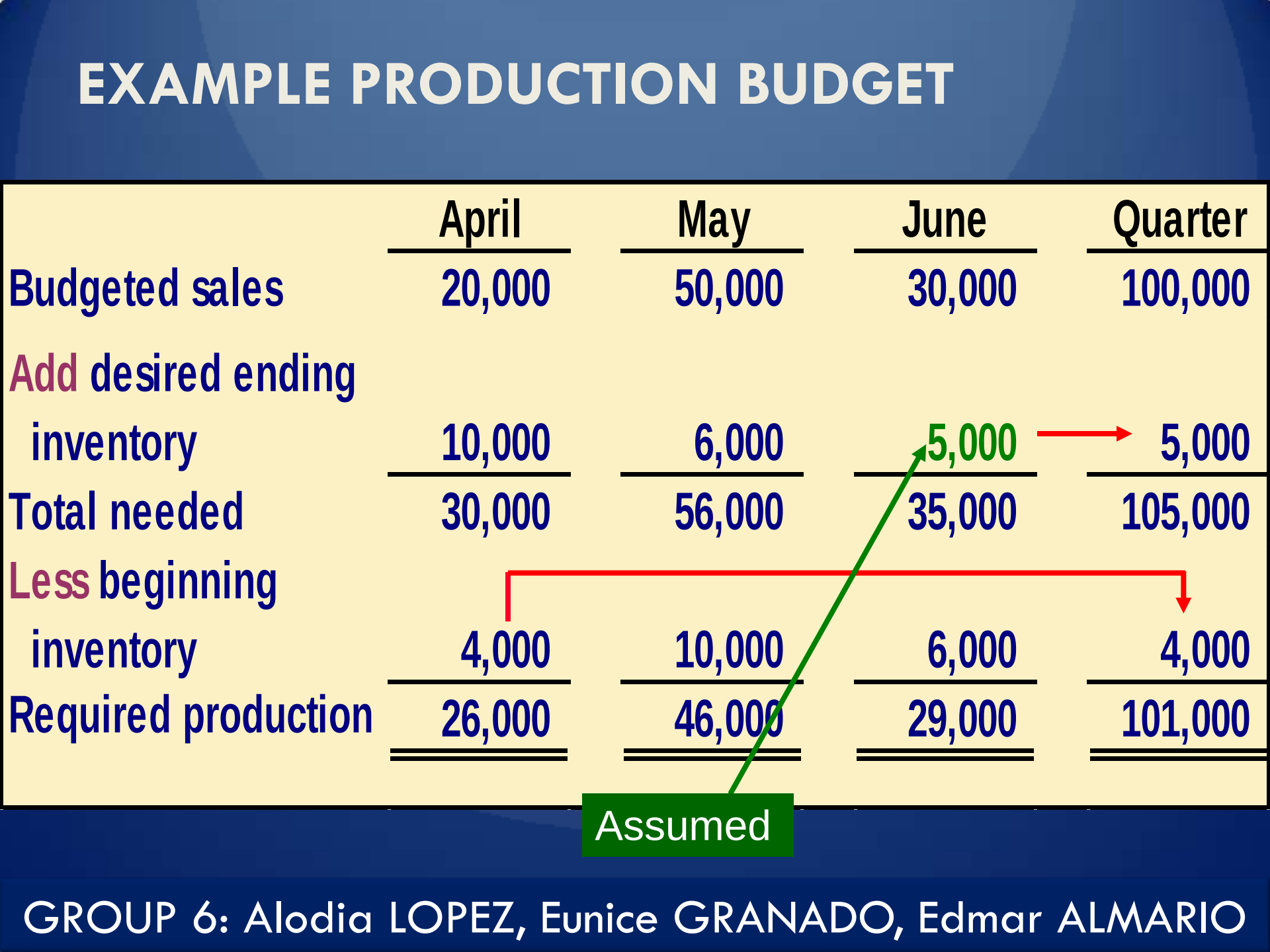
EXAMPLE PRODUCTION BUDGET

	April	May	June	Quarter
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000	6,000		
Total needed	30,000	56,000		
Less beginning inventory	4,000	10,000		
Required production	26,000	46,000		

Ending Inventory for the previous month equals the beginning inventory for the next month

EXAMPLE PRODUCTION BUDGET

	April	May	June	Quarter
Budgeted sales	20,000	50,000	30,000	100,000
Add desired ending inventory	10,000	6,000	5,000	5,000
Total needed	30,000	56,000	35,000	105,000
Less beginning inventory	4,000	10,000	6,000	4,000
Required production	26,000	46,000	29,000	101,000



EXAMPLE EXPECTED CASH COLLECTIONS

- All sales are on account.
- Sixer's collection pattern is:
  - 70% collected in the month of sale,
  - 25% collected in the month following sale,
  - 5% is uncollectible.
- The March 31 accounts receivable balance of $30,000 will be collected in full.

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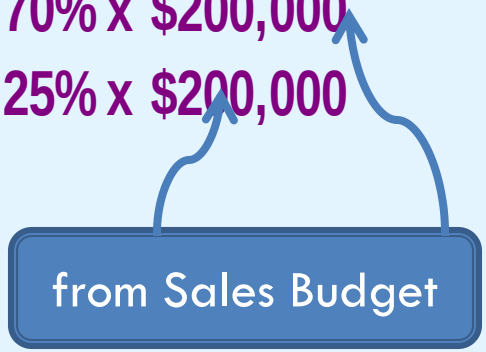
EXAMPLE EXPECTED CASH COLLECTIONS

	April	May	June	Quarter
Accounts rec. - 3/31	$ 30,000			$ 30,000
Total cash collections				

EXAMPLE EXPECTED CASH COLLECTIONS

	April	May	June	Quarter
Accounts rec. - 3/31	$ 30,000			$ 30,000
April sales				
70% x $200,000	140,000			140,000
25% x $200,000		$ 50,000		50,000
Total cash collections	$ 170,000			?



EXAMPLE EXPECTED CASH COLLECTIONS

	April	May	June	Quarter
Accounts rec. - 3/31	$ 30,000			$ 30,000
April sales				
70% x $200,000	140,000			140,000
25% x $200,000		$ 50,000		50,000
May sales				
70% x $500,000		350,000		350,000
25% x $500,000			$125,000	125,000
Total cash collections	$170,000	$400,000		

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EXAMPLE EXPECTED CASH COLLECTIONS

	April	May	June	Quarter
Accounts rec. - 3/31	$ 30,000			$ 30,000
April sales				
70% x $200,000	140,000			140,000
25% x $200,000		$ 50,000		50,000
May sales				
70% x $500,000		350,000		350,000
25% x $500,000			$125,000	125,000
June sales				
70% x $300,000			210,000	210,000
Total cash collections	$170,000	$400,000	$335,000	$905,000

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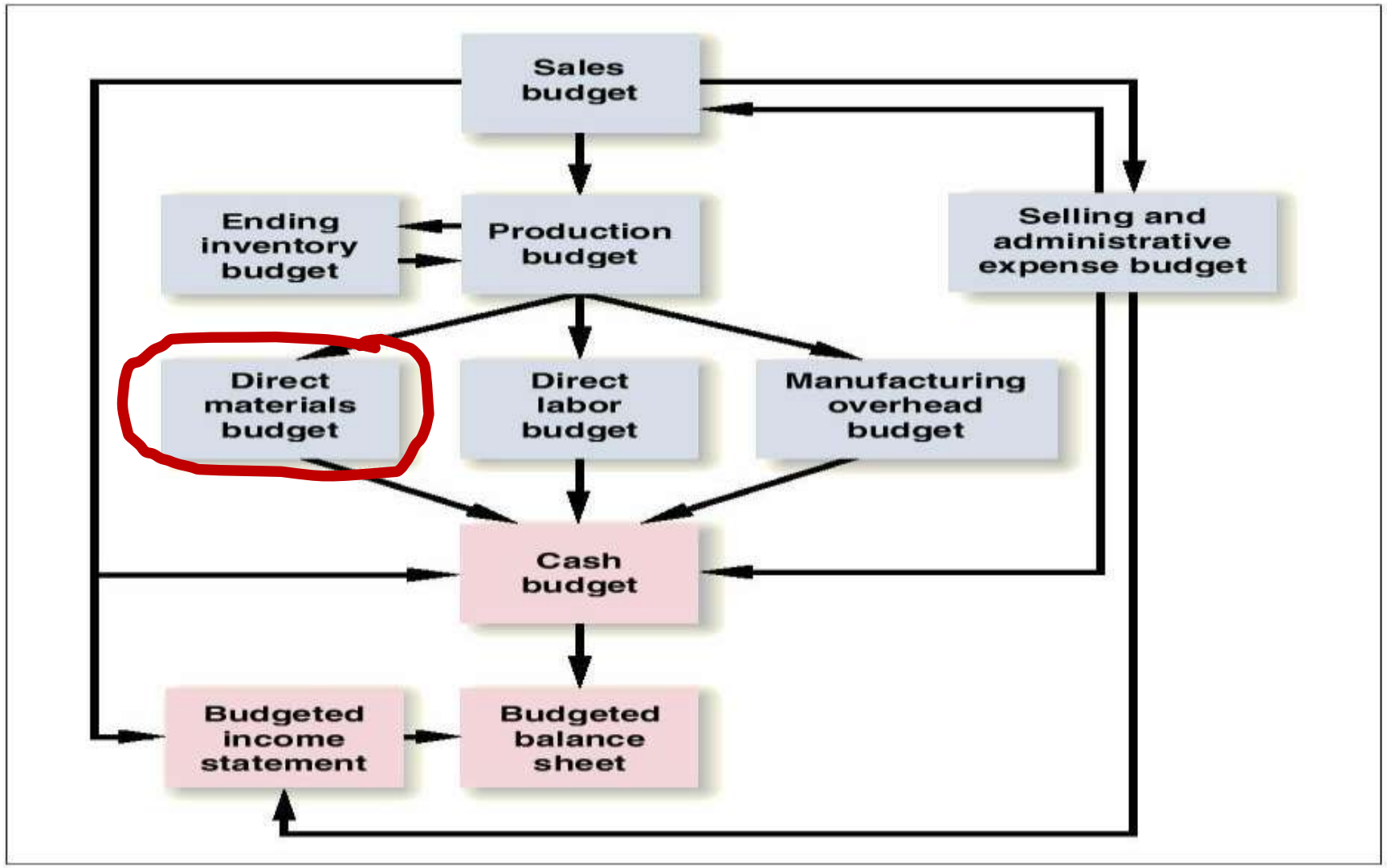
MASTER BUDGET



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DIRECT MATERIALS BUDGET

- A budget showing the raw materials that must be purchased to fulfill the production budget and to provide for adequate inventories

Required Purchases of Raw Materials = Amount Required for Production + Desired Ending Inventory of Raw Materials - Beginning Inventory of Raw Materials

EXAMPLE DIRECT MATERIALS BUDGET

At Sixer's Company, five pounds of material are required per unit of product.

Management wants materials on hand at the end of each month equal to 10% of the following month's production.

On March 31, 13,000 pounds of material are on hand. Material cost is $0.40 per pound.

Let's prepare the direct materials budget.

EXAMPLE DIRECT MATERIALS BUDGET

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Materials per unit	5	5	5	5
Production needs	130,000	230,000	145,000	505,000
Add desired ending inventory				
Total needed				
Less beginning inventory				
Materials to be purchased				

From production budget

EXAMPLE DIRECT MATERIALS BUDGET

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Materials per unit	5	5	5	5
Production needs	130,000	230,000	145,000	505,000
Add desired ending inventory	23,000			
Total needed	153,000			
Less beginning inventory	13,000			
Materials to be purchased	140,000			

10% of the following month's production

March 31 inventory

EXAMPLE DIRECT MATERIALS BUDGET

1. Amount required for production.

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Materials per unit	5			5
Production needs	130,000			505,000
Add desired ending inventory	23,000		500	11,500
Total needed	153,000		500	516,500
Less beginning inventory	13,000			
Materials to be purchased	140,000	221,500	142,000	503,500

2. Plus Desired Ending Inventory of raw materials.

Assumed

3. Less Beginning Inventory of raw materials.

4. Required purchases of Direct Materials

EXAMPLE EXPECTED CASH DISBURSEMENTS FOR MATERIALS

Sixer's pays $0.40 per pound for its materials.

One-half of a month's purchases are paid for in the month of purchase; the other half is paid in the following month.

The March 31 accounts payable balance is $12,000.

Let's calculate expected cash disbursements.

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EXAMPLE EXPECTED CASH DISBURSEMENTS FOR MATERIALS

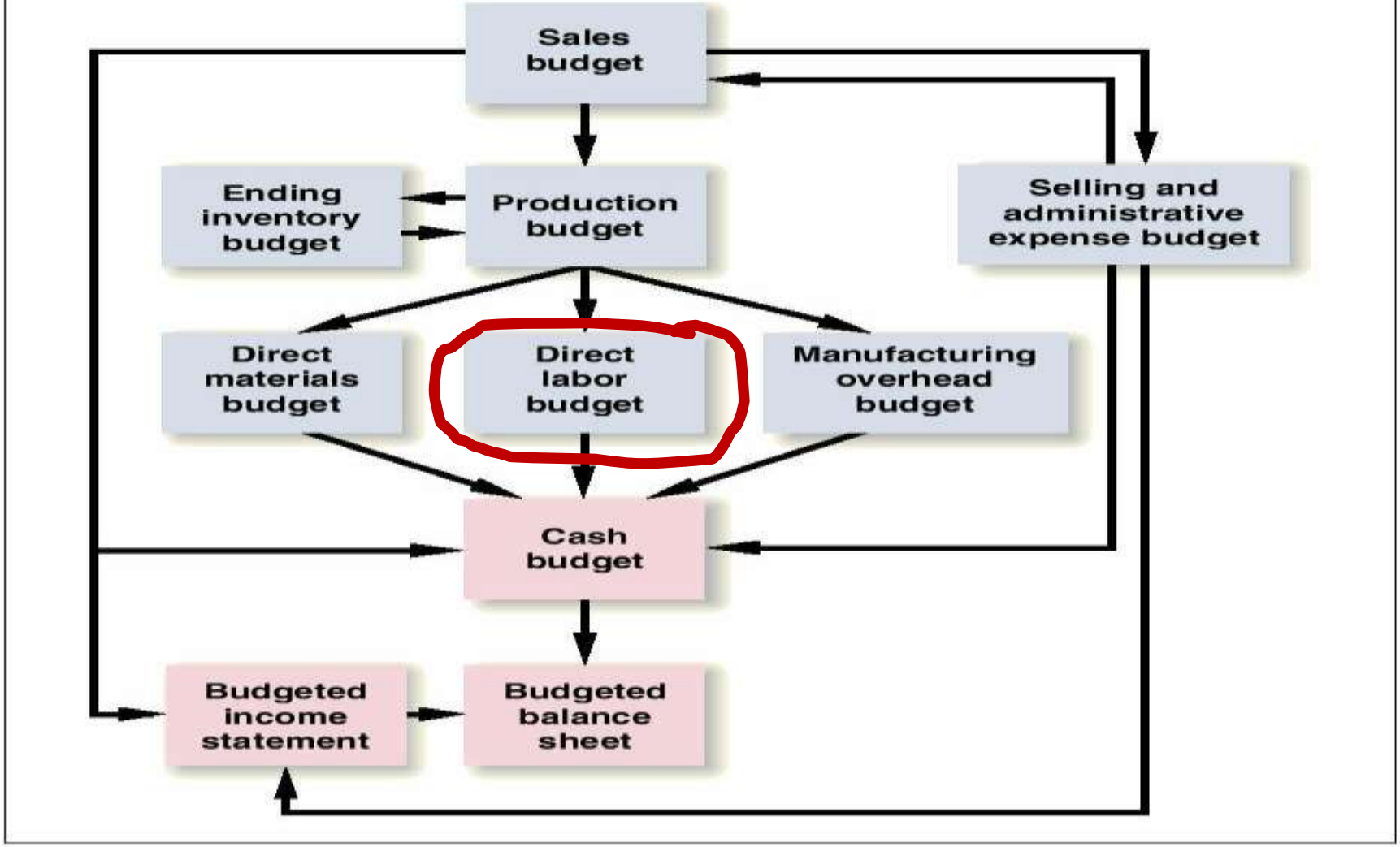
	April	May	June	Quarter
Accounts pay. 3/31	$ 12,000			$ 12,000
April purchases				
50% x $56,000	28,000			28,000
50% x $56,000		$ 28,000		28,000
May purchases				
June purchases				
Total cash disbursements	$ 40,000			?

140,000 lbs. × $.40/lb. = $56,000

EXAMPLE EXPECTED CASH DISBURSEMENTS FOR MATERIALS

	April	May	June	Quarter
Accounts pay. 3/31	$12,000			$ 12,000
April purchases				
50% x $56,000	28,000			28,000
50% x $56,000		$28,000		28,000
May purchases				
50% x $88,600		44,300		44,300
50% x $88,600			$44,300	44,300
June purchases				
50% x $56,800			28,400	28,400
Total cash disbursements	$40,000	$72,300	$72,700	$185,000

MASTER BUDGET



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DIRECT LABOR BUDGET

- A budget showing the direct labor hours (and total amount) needed to produce the number of units specified in the production budget.

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EXAMPLE DIRECT LABOR BUDGET

At Sixer's, each unit of product requires 0.05 hours of direct labor.

The Company has a "no layoff" policy so all employees will be paid for 40 hours of work each week.

In exchange for the "no layoff" policy, workers agreed to a wage rate of $10 per hour regardless of the hours worked (No overtime pay).

For the next three months, the direct labor workforce will be paid for a minimum of 1,500 hours per month.

- **Let's prepare the direct labor budget.**

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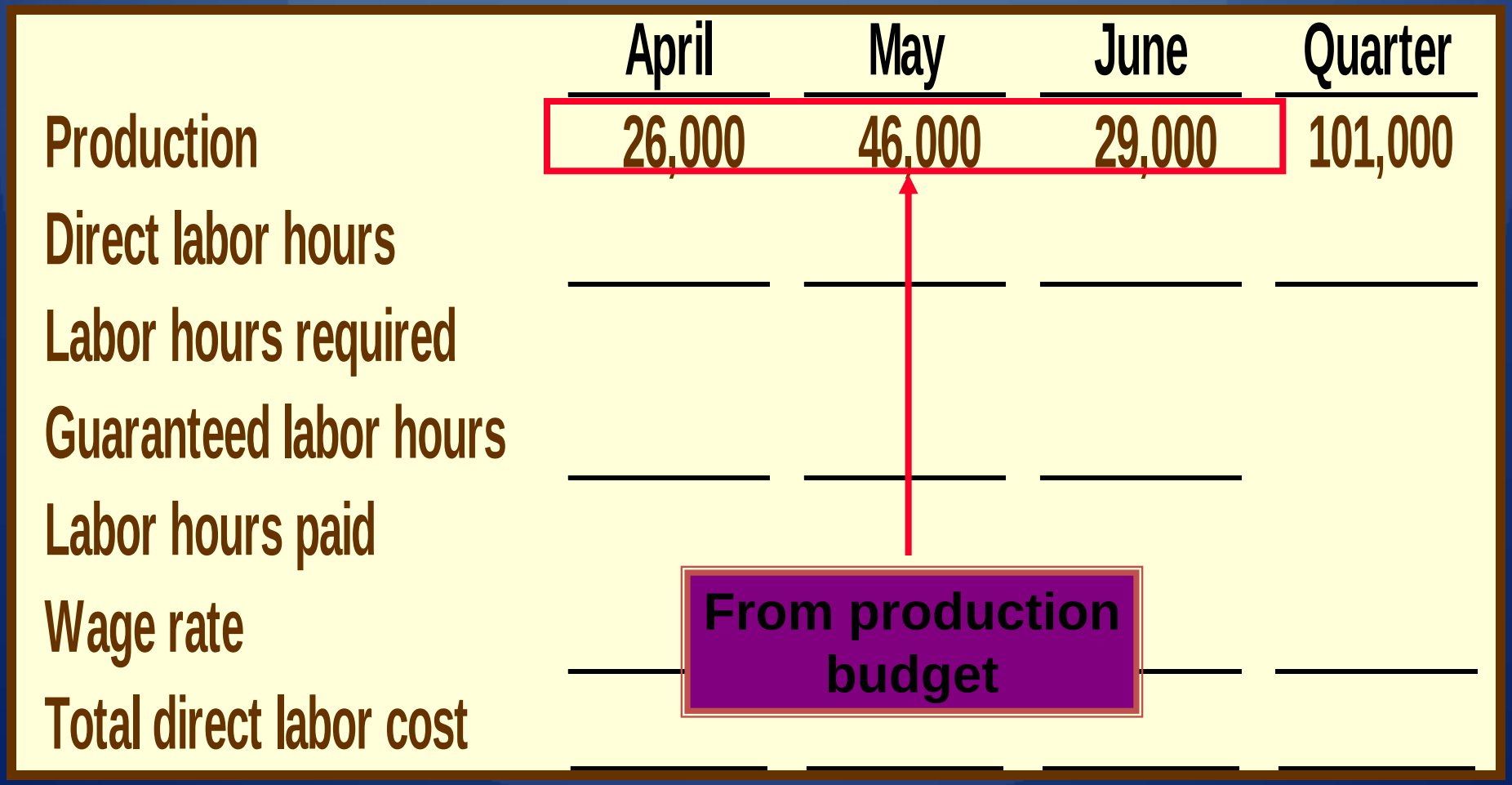
EXAMPLE DIRECT LABOR BUDGET

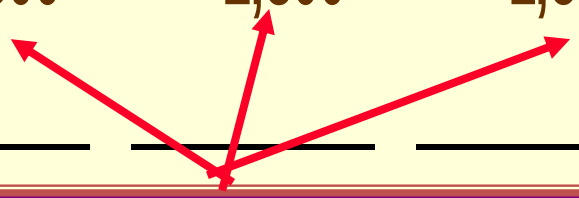


EXAMPLE DIRECT LABOR BUDGET

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours				
Labor hours paid				
Wage rate				
Total direct labor cost				

EXAMPLE DIRECT LABOR BUDGET

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours	1,500	1,500	1,500	
Labor hours paid	1,500	2,300	1,500	5,300
Wage rate				



Higher of labor hours required or labor hours guaranteed.

EXAMPLE DIRECT LABOR BUDGET

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours	1,500	1,500	1,500	
Labor hours paid	1,500	2,300	1,500	5,300
Wage rate	$ 10	$ 10	$ 10	$ 10
Total direct labor cost	$ 15,000	$ 23,000	$ 15,000	$ 53,000

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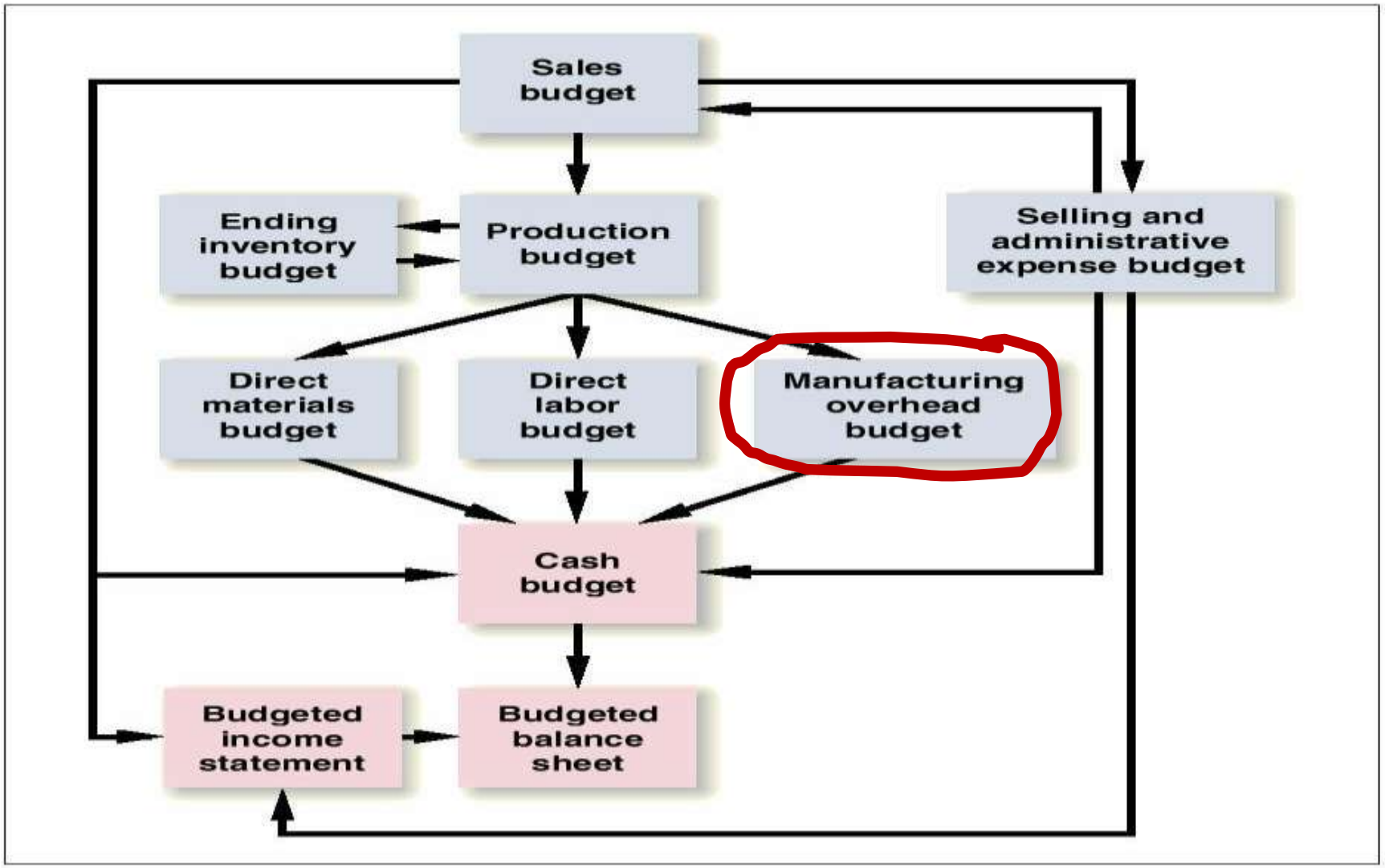
EXAMPLE DIRECT LABOR BUDGET

On the other hand, if the company decided to follow its no lay-off policy and pays $15 (time-and-a-half) for every hour worked in excess of 1,500 hours in a month, the direct labor budget would look like this:

	April	*May*	*June*	*Quarter*
Labor hours required	1,300	2,300	1,450	
Regular hours paid	1,500	1,500	1,500	4,500
Overtime hours paid	-	800	-	800
Total regular hours	4,500	$10	$45,000	
Total overtime hours	800	$15	$12,000	
Total pay			$57,000	

MASTER BUDGET



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MANUFACTURING OVERHEAD BUDGET

A budget showing all costs of production other than direct materials and direct labor.

Has two components: *variable* which depends on the number of units produced from the production budget and *fixed* overhead which depends on the total cost expected to be incurred

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EXAMPLE MANUFACTURING OVERHEAD BUDGET

Sixer's Company uses a variable manufacturing overhead rate of $1 per unit **produced**.

Fixed manufacturing overhead is $50,000 per month and includes $20,000 of noncash costs (primarily depreciation of plant assets).

Let's prepare the manufacturing overhead budget.

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EXAMPLE MANUFACTURING OVERHEAD BUDGET

	April	May	June	Quarter
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	$ 1	$ 1	$ 1	$ 1
Variable mfg. OH costs	$ 26,000	$ 46,000	$ 29,000	$ 101,000
Fixed mfg. OH costs				
Total mfg. OH costs				
Less noncash costs				
Cash disbursements for manufacturing OH				

From production budget

EXAMPLE MANUFACTURING OVERHEAD BUDGET

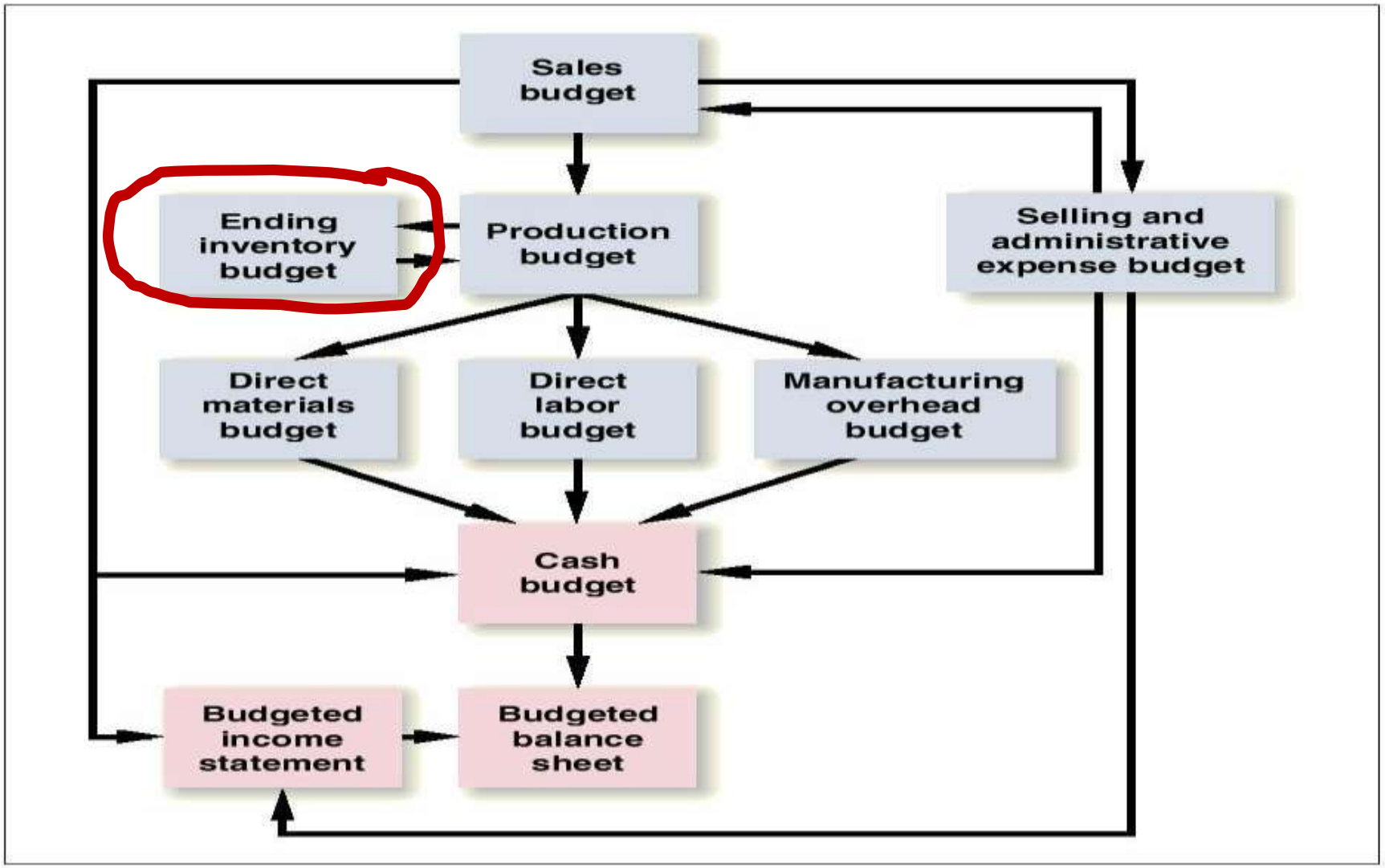
	April	May	June	Quarter
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	$ 1	$ 1	$ 1	$ 1
Variable mfg. OH costs	$ 26,000	$ 46,000	$ 29,000	$ 101,000
Fixed mfg. OH costs	50,000	50,000	50,000	150,000
Total mfg. OH costs	76,000	96,000	79,000	251,000
Less noncash costs				
Cash disbursements for manufacturing OH				

EXAMPLE MANUFACTURING OVERHEAD BUDGET

	April	May	June	Quarter
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	$ 1	$ 1	$ 1	$ 1
Variable mfg. OH costs	$ 26,000	$ 46,000	$ 29,000	$ 101,000
Fixed mfg. OH costs	50,000	50,000	50,000	150,000
Total mfg. OH costs	76,000	96,000	79,000	251,000
Less noncash costs	20,000	20,000	20,000	60,000
Cash disbursements for manufacturing OH	$ 56,000	$ 76,000	$ 59,000	$ 191,000

Depreciation is a noncash charge.

MASTER BUDGET



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ENDING FINISHED GOODS INVENTORY BUDGET

- A budget showing the carrying cost of the unsold units remaining in inventory.
- Contains an itemization of the three main costs required in the inventory assets which are direct materials, direct labor and overhead allocation.

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE ENDING FINISHED GOODS INVENTORY BUDGET

Now, Sixer's can complete the ending finished goods inventory budget.

At Sixer's, manufacturing overhead is applied to units of product on the basis of direct labor hours.

Let's calculate ending finished goods inventory.

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE ENDING FINISHED GOODS INVENTORY BUDGET

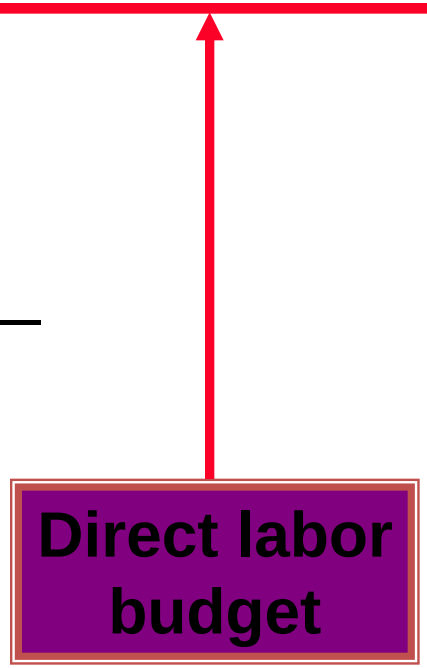
Production costs per unit	Quantity	Cost	Total
Direct materials	5.00 lbs.	$ 0.40	$ 2.00
Direct labor			
Manufacturing overhead			
Budgeted finished goods inventory			
Ending inventory in units			
Unit product cost			
Ending finished goods inv			

Direct materials budget and information

EXAMPLE ENDING FINISHED GOODS INVENTORY BUDGET

Production costs per unit	Quantity		Cost	Total
Direct materials	5.00	lbs.	$ 0.40	$ 2.00
Direct labor	0.05	hrs.	$10.00	0.50
Manufacturing overhead				

Budgeted finished goods inventory	
Ending inventory in units	
Unit product cost	
Ending finished goods inventory	



EXAMPLE ENDING FINISHED GOODS INVENTORY BUDGET

Production costs per unit	Quantity		Cost	Total
Direct materials	5.00	lbs.	$ 0.40	$ 2.00
Direct labor	0.05	hrs.	$10.00	0.50
Manufacturing overheac	0.05	hrs.	$49.70	2.49
				$ 4.99

Budgeted finished goods inventory	
Ending inventory in units	
Unit product cost	$ 4.99

Total mfg. OH for quarter	$251,000
Total labor hours required	5,050 hrs.

= $49.70 per hr.*

EXAMPLE MANUFACTURING OVERHEAD BUDGET

	April	May	June	Quarter
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	$ 1	$ 1	$ 1	$ 1
Variable mfg. OH costs	$ 26,000	$ 46,000	$ 29,000	$ 101,000
Fixed mfg. OH costs	50,000	50,000	50,000	150,000
Total mfg. OH costs	76,000	96,000	79,000	251,000
Less noncash costs	20,000	20,000	20,000	60,000
Cash disbursements for manufacturing OH	$ 56,000	$ 76,000	$ 59,000	$ 191,000

EXAMPLE DIRECT LABOR BUDGET

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours	1,500	1,500	1,500	
Labor hours paid	1,500	2,300	1,500	5,300
Wage rate	$ 10	$ 10	$ 10	$ 10
Total direct labor cost	$ 15,000	$ 23,000	$ 15,000	$ 53,000

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE ENDING FINISHED GOODS INVENTORY BUDGET

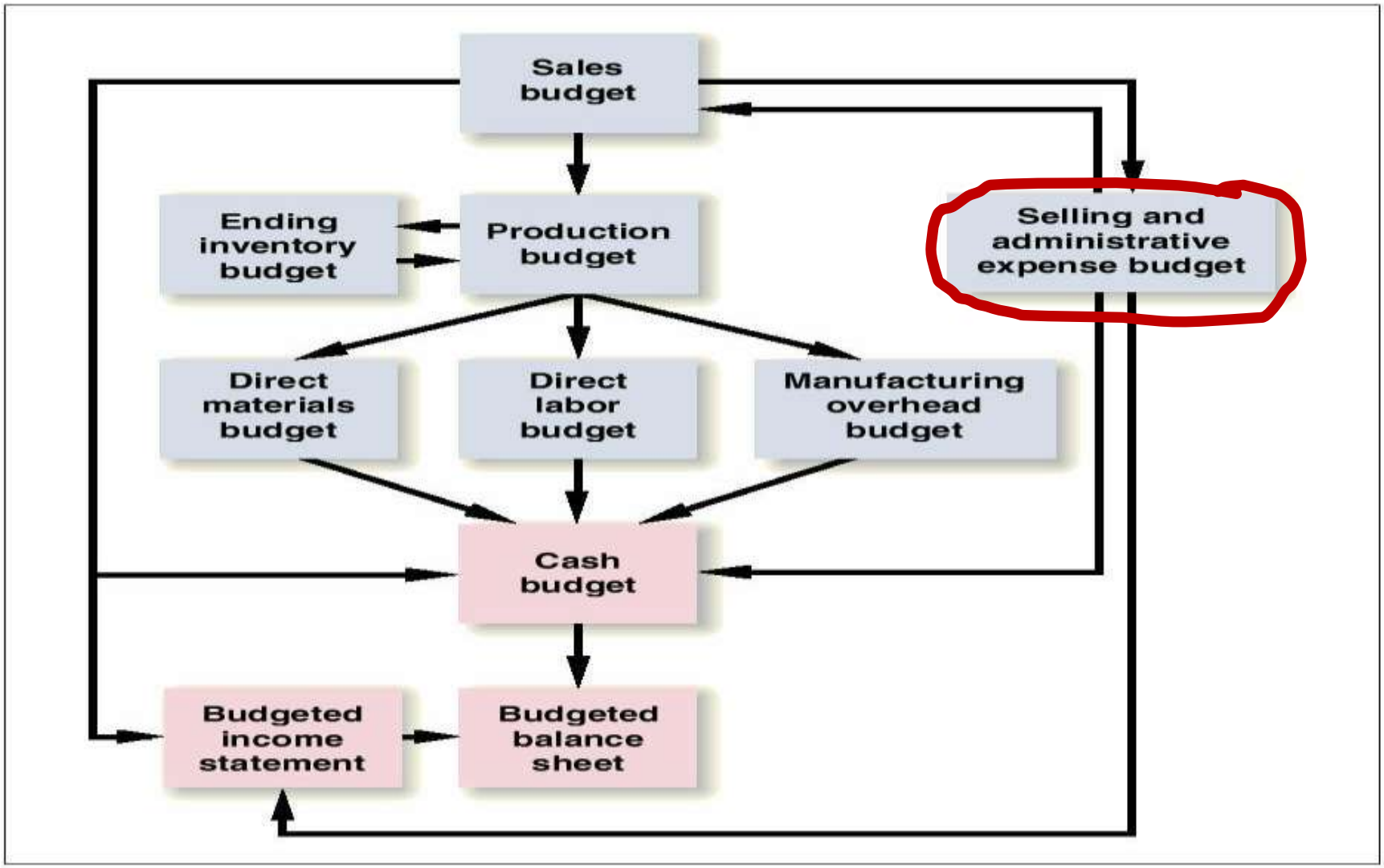
Production costs per unit	Quantity	Cost	Total
Direct materials	5.00 lbs.	$ 0.40	$ 2.00
			0.50
			2.49
			4.99

Ending Inventory X Product Cost=
5,000 X 4.99 = 24,950

Budgeted finished goods inventory	
Ending inventory in units	5,000
Unit product cost	$ 4.99
Ending finished goods	$24,950

Production Budget

MASTER BUDGET



GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

SELLING AND ADMINISTRATIVE EXPENSE BUDGET

A budget showing expenses for areas other than manufacturing.

Similar to the manufacturing overhead budget as it includes variable and fixed expenses

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE SELLING AND ADMINISTRATIVE EXPENSE BUDGET

At Sixer's, variable selling and administrative expenses are $0.50 per unit sold.

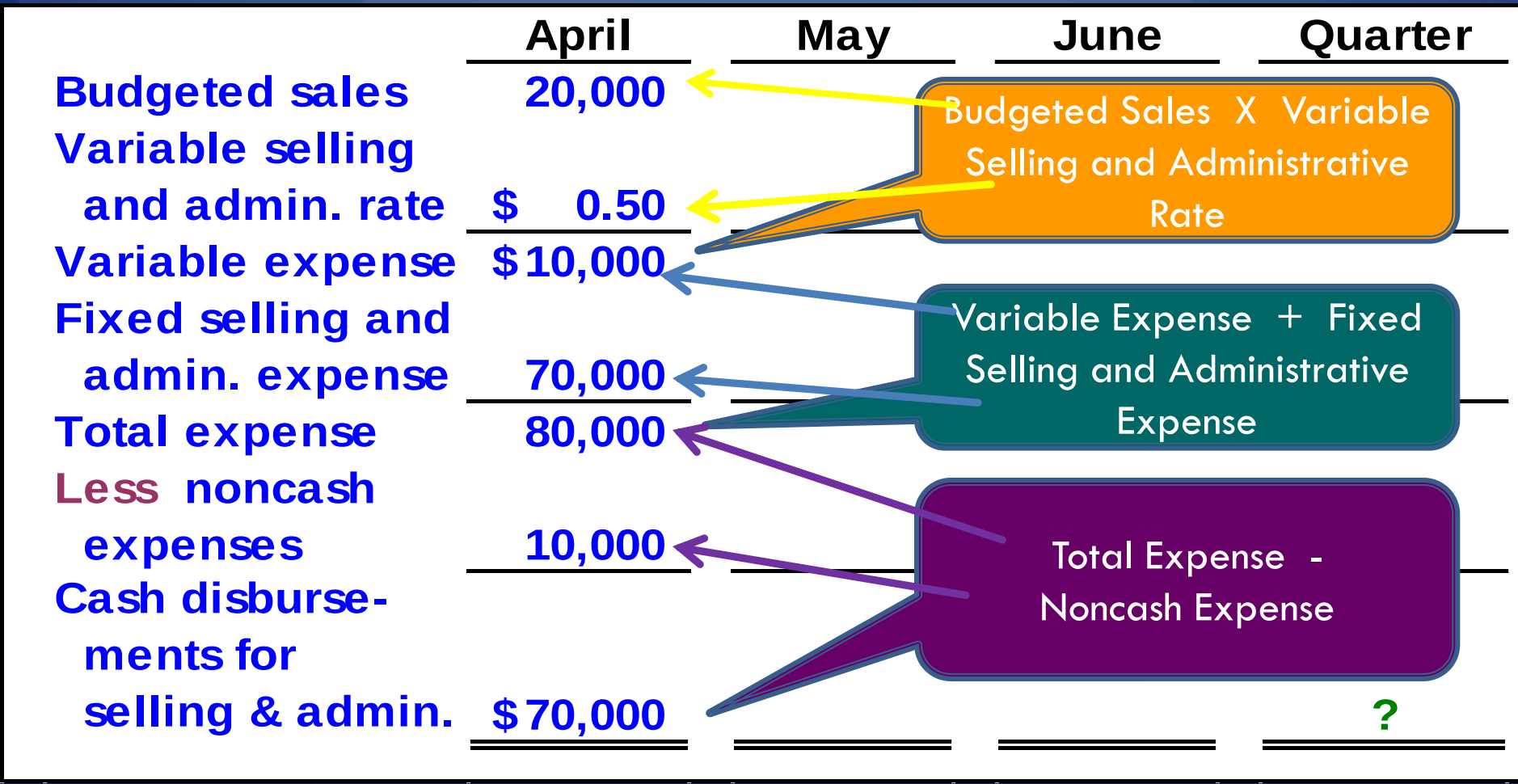
Fixed selling and administrative expenses are $70,000 per month.

The fixed selling and administrative expenses include $10,000 in costs – primarily depreciation – that are not cash outflows of the current month.

Let's prepare the company's selling and administrative expense budget.

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

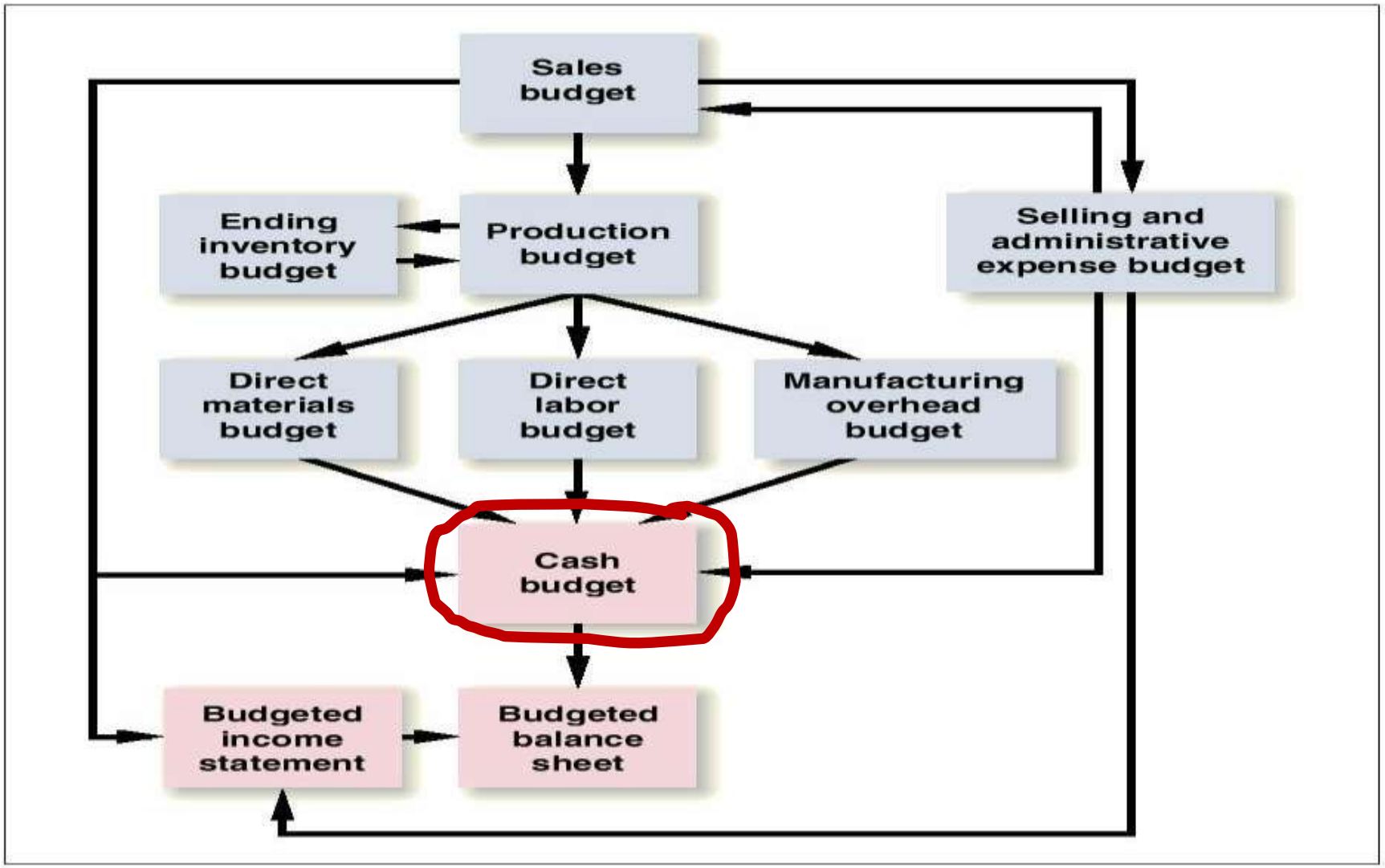
EXAMPLE SELLING AND ADMINISTRATIVE EXPENSE BUDGET



EXAMPLE SELLING AND ADMINISTRATIVE EXPENSE BUDGET

	April	May	June	Quarter
Budgeted sales	20,000	50,000	30,000	100,000
Variable selling and admin. rate	$ 0.50	$ 0.50	$ 0.50	$ 0.50
Variable expense	$10,000	$25,000	$15,000	$ 50,000
Fixed selling and admin. expense	70,000	70,000	70,000	210,000
Total expense	80,000	95,000	85,000	260,000
Less noncash expenses	10,000	10,000	10,000	30,000
Cash disburse-ments for selling & admin.	$70,000	$85,000	$75,000	$230,000

MASTER BUDGET



GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

CASH BUDGET

The cash budget is divided into four sections:

- **Cash receipts from the sales budget**
- **Cash disbursements from direct materials, direct labor, manufacturing overhead and selling administrative expense budgets**
- **Cash excess or deficiency section determines if the company will need to borrow money or if it will be able to repay funds previously borrowed; and**
- **Financing section details the borrowings and repayments projected to take place during the budget period.**

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE CASH BUDGET

Sixer's

- Maintains a 16% open line of credit for $75,000.
- Maintains a minimum cash balance of $30,000.
- Borrows on the first day of the month and repays loans on the last day of the month.
- Pays a cash dividend of $49,000 in April.
- Purchases $143,700 of equipment in May and $48,300 in June paid in cash.
- Has an April 1 cash balance of $40,000.

EXAMPLE CASH BUDGET

	April	May	June	Quarter
Beginning cash balance	$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor	15,000			
Mfg. overhead	56,000			
Selling and admin.	70,000			
Equipment purchase	-			
Dividends	49,000			
Total disbursements	230,000			
Excess (deficiency) of cash available over disbursements	$(20,000)			

Schedule of Expected Cash Collections

EXAMPLE EXPECTED CASH COLLECTIONS

	April	May	June	Quarter
Accounts rec. - 3/31	$ 30,000			$ 30,000
April sales				
70% x $200,000	140,000			140,000
25% x $200,000		$ 50,000		50,000
May sales				
70% x $500,000		350,000		350,000
25% x $500,000			$125,000	125,000
June sales				
70% x $300,000			210,000	210,000
Total cash collections	$170,000	$400,000	$335,000	$905,000

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE CASH BUDGET

	April	May	June	Quarter
Beginning cash balance	$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor	15,000			
Mfg. overhead	56,000			
Selling and admin.	70,000			
Equipment purchase	-			
Dividends	49,000			
Total disbursements	230,000			
Excess (deficiency) of cash available over disbursements	$(20,000)			

Schedule of Expected Cash Collections

Schedule of Expected Cash Disbursements

EXAMPLE EXPECTED CASH DISBURSEMENTS FOR MATERIALS

	April	May	June	Quarter
Accounts pay. 3/31	$12,000			$ 12,000
April purchases				
50% x $56,000	28,000			28,000
50% x $56,000		$28,000		28,000
May purchases				
50% x $88,600		44,300		44,300
50% x $88,600			$44,300	44,300
June purchases				
50% x $56,800			28,400	28,400
Total cash disbursements	$40,000	$72,300	$72,700	$185,000

EXAMPLE CASH BUDGET

	April	May	June	Quarter
Beginning cash balance	$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor	15,000			
Mfg. overhead	56,000			
Selling and admin.	70,000			
Equipment purchase	-			
Dividends	49,000			
Total disbursements	230,000			
Excess (deficiency) of cash available over disbursements	$(20,000)			

Schedule of Expected Cash Collections

Schedule of Expected Cash Disbursements

Direct Labor Budget

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE DIRECT LABOR BUDGET

	April	May	June	Quarter
Production	26,000	46,000	29,000	101,000
Direct labor hours	0.05	0.05	0.05	0.05
Labor hours required	1,300	2,300	1,450	5,050
Guaranteed labor hours	1,500	1,500	1,500	
Labor hours paid	1,500	2,300	1,500	5,300
Wage rate	$ 10	$ 10	$ 10	$ 10
Total direct labor cost	$ 15,000	$ 23,000	$ 15,000	$ 53,000

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE CASH BUDGET

	April	May	June	Quarter
Beginning cash balance	$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor	15,000			
Mfg. overhead	56,000			
Selling and admin.	70,000			
Equipment purchase	-			
Dividends	49,000			
Total disbursements	230,000			
Excess (deficiency) of cash available over disbursements	$(20,000)			

Schedule of Expected Cash Collections

Schedule of Expected Cash Disbursements

Direct Labor Budget

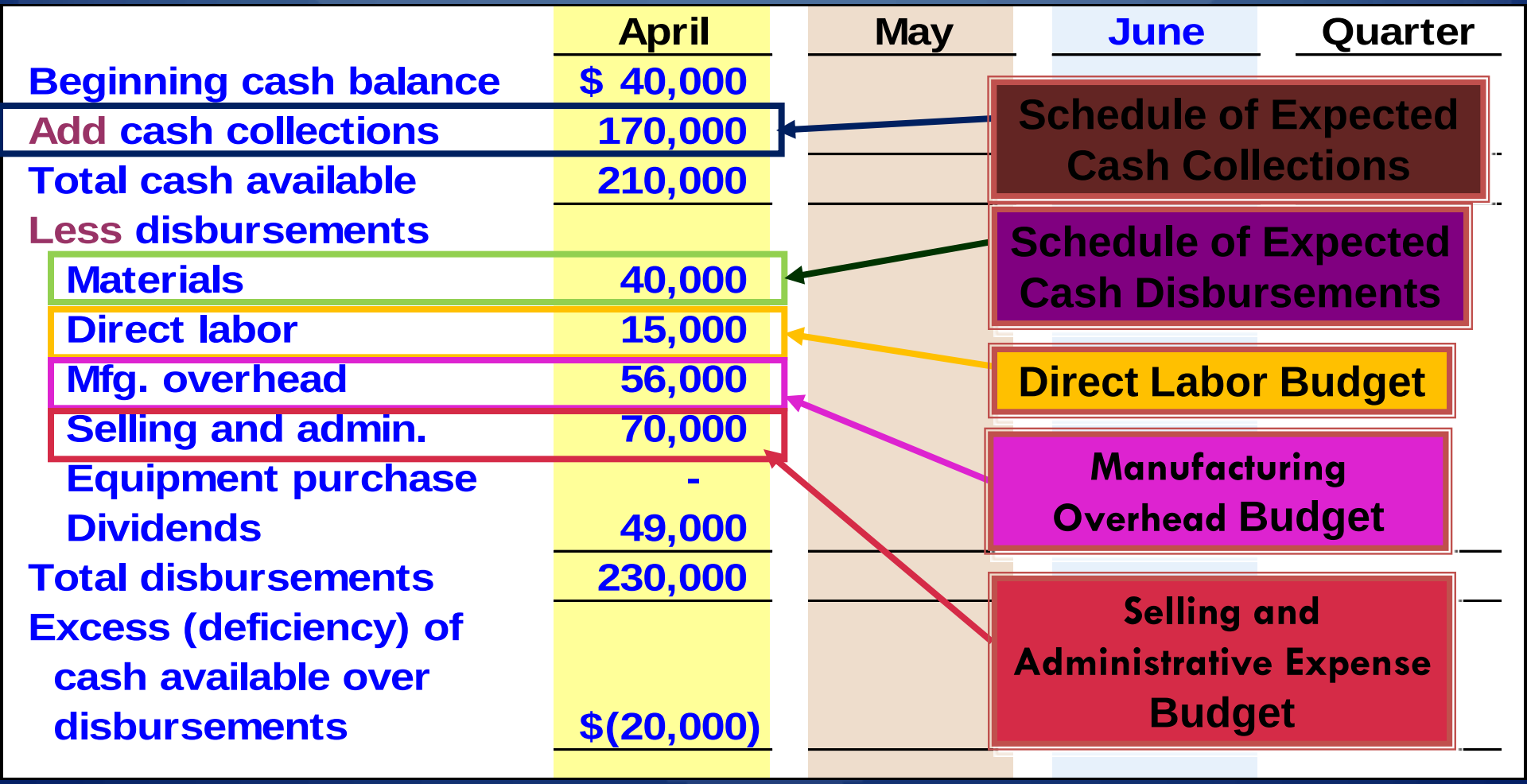
Manufacturing Overhead Budget

EXAMPLE MANUFACTURING OVERHEAD BUDGET

	April	May	June	Quarter
Production in units	26,000	46,000	29,000	101,000
Variable mfg. OH rate	$ 1	$ 1	$ 1	$ 1
Variable mfg. OH costs	$ 26,000	$ 46,000	$ 29,000	$ 101,000
Fixed mfg. OH costs	50,000	50,000	50,000	150,000
Total mfg. OH costs	76,000	96,000	79,000	251,000
Less noncash costs	20,000	20,000	20,000	60,000
Cash disbursements for manufacturing OH	$ 56,000	$ 76,000	$ 59,000	$ 191,000

EXAMPLE CASH BUDGET

	April	May	June	Quarter
Beginning cash balance	$ 40,000			
Add cash collections	170,000			
Total cash available	210,000			
Less disbursements				
Materials	40,000			
Direct labor	15,000			
Mfg. overhead	56,000			
Selling and admin.	70,000			
Equipment purchase	-			
Dividends	49,000			
Total disbursements	230,000			
Excess (deficiency) of cash available over disbursements	$(20,000)			



GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

EXAMPLE SELLING AND ADMINISTRATIVE EXPENSE BUDGET

	April	May	June	Quarter
Budgeted sales	20,000	50,000	30,000	100,000
Variable selling and admin. rate	$ 0.50	$ 0.50	$ 0.50	$ 0.50
Variable expense	$10,000	$25,000	$15,000	$ 50,000
Fixed selling and admin. expense	70,000	70,000	70,000	210,000
Total expense	80,000	95,000	85,000	260,000
Less noncash expenses	10,000	10,000	10,000	30,000
Cash disburse-ments for selling & admin.	$70,000	$85,000	$75,000	$230,000

EXAMPLE CASH BUDGET
FINANCING AND REPAYMENT

	April	May	June	Quarter
Excess (deficiency) of Cash available over disbursements	$(20,000)			
Financing:				
Borrowing	50,000			
Repayments	-			
Interest	-			
Total financing	50,000			
Ending cash balance	$ 30,000			

Ending cash balance for April is the beginning May balance.

Because Sixer's maintains a cash balance of $30,000, the company must borrow on its line-of-credit

EXAMPLE CASH BUDGET

	April	May	June	Quarter
Beginning cash balance	$ 40,000	$ 30,000		
Add cash collections	170,000	400,000		
Total cash available	210,000	430,000		
Less disbursements				
Materials	40,000	72,300		
Direct labor	15,000	23,000		
Mfg. overhead	56,000	76,000		
Selling and admin.	70,000	85,000		
Equipment purchase	-	143,700		
Dividends	49,000	-		
Total disbursements	230,000	400,000		
Excess (deficiency) of cash available over disbursements	$(20,000)	$ 30,000		

Beginning Cash Balance + Cash Collections

Total Cash Available - Total Disbursements

EXAMPLE CASH BUDGET
FINANCING AND REPAYMENT

	April	May	June	Quarter
Excess (deficiency) of Cash available over disbursements	$(20,000)	$30,000		
Financing:				
Borrowing				
Repayments				
Interest				
Total financing	50,000	-		
Ending cash balance	$ 30,000	$30,000		

Because the ending cash balance is exactly $30,000, Sixer's will not repay the loan this month.

EXAMPLE CASH BUDGET

	April	May	June	Quarter
Beginning cash balance	$ 40,000	$ 30,000	$ 30,000	$ 40,000
Add cash collections	170,000	400,000	335,000	905,000
Total cash available	210,000	430,000	365,000	945,000
Less disbursements				
Materials	40,000	72,300	72,700	185,000
Direct labor	15,000	23,000	15,000	53,000
Mfg. overhead	56,000	76,000	59,000	191,000
Selling and admin.	70,000	85,000	75,000	230,000
Equipment purchase	-	143,700	48,300	192,000
Dividends	49,000	-	-	49,000
Total disbursem				
Excess (deficien				
cash available				
disbursements	$(20,000)	$ 30,000	$ 95,000	$ 45,000

At the end of June, Sixer's has enough cash to repay the $50,000 loan plus interest at 16%.

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

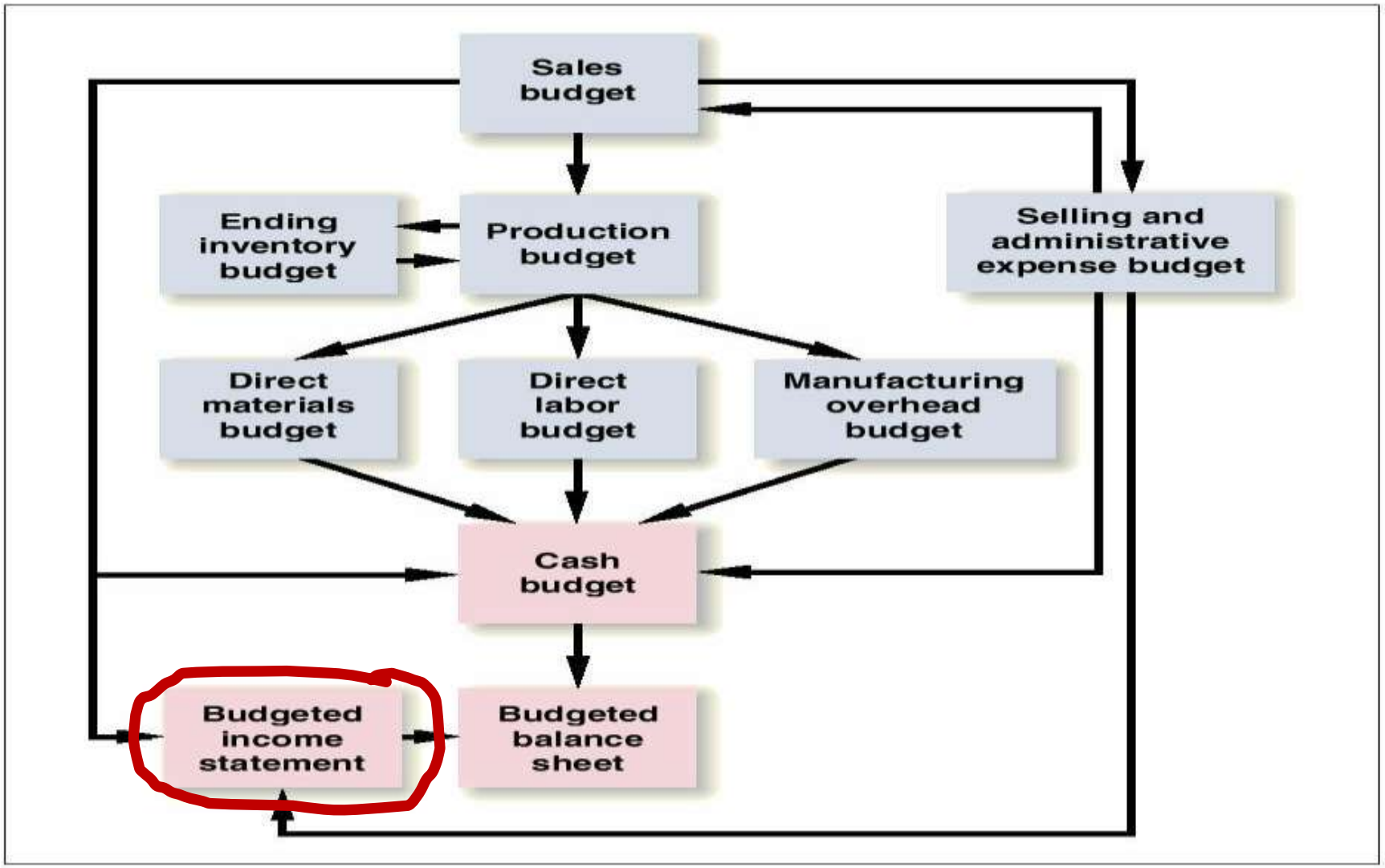
EXAMPLE CASH BUDGET FINANCING AND REPAYMENT

	April	May	June	Quarter
Excess (deficiency) of Cash available over disbursements	$(20,000)	$30,000	$95,000	$45,000
Financing:				
Borrowing	50,000	-	-	50,000
Repayments	-	-	(50,000)	(50,000)
Interest	-	-	(2,000)	(2,000)
Total financing	50,000	-	(52,000)	(2,000)
Ending cash balance	$ 30,000	$30,000	$43,000	$43,000

$50,000 × 16% × 3/12 = $2,000

Borrowings on April 1 and repayment of June 30.

MASTER BUDGET



GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

BUDGETED INCOME STATEMENT

Sixer's Company
Budgeted Income Statement
For the Three Months Ended June 30

Sales (100,000 units @ $10)	1,000,000.00
Cost of goods sold (100,000 @ $4.99)	499,000.00
Gross margin	501,000.00
Selling and administrative expenses	260,000.00
Operating income	241,000.00
Interest expense	2,000.00
Net income	239,000.00

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

BUDGETED INCOME STATEMENT

Sixer's Company
Budgeted Income Statement
For the Three Months Ended June 30

Sales (100,000 units @ $10)	1,000,000.00
Cost of g… $4.99)	499,000.00
Gr…	501,000.00
Se… enses	260,000.00
Ope…	241,000.00
Selli… nse	2,000.00
Budg… nses)	239,000.00

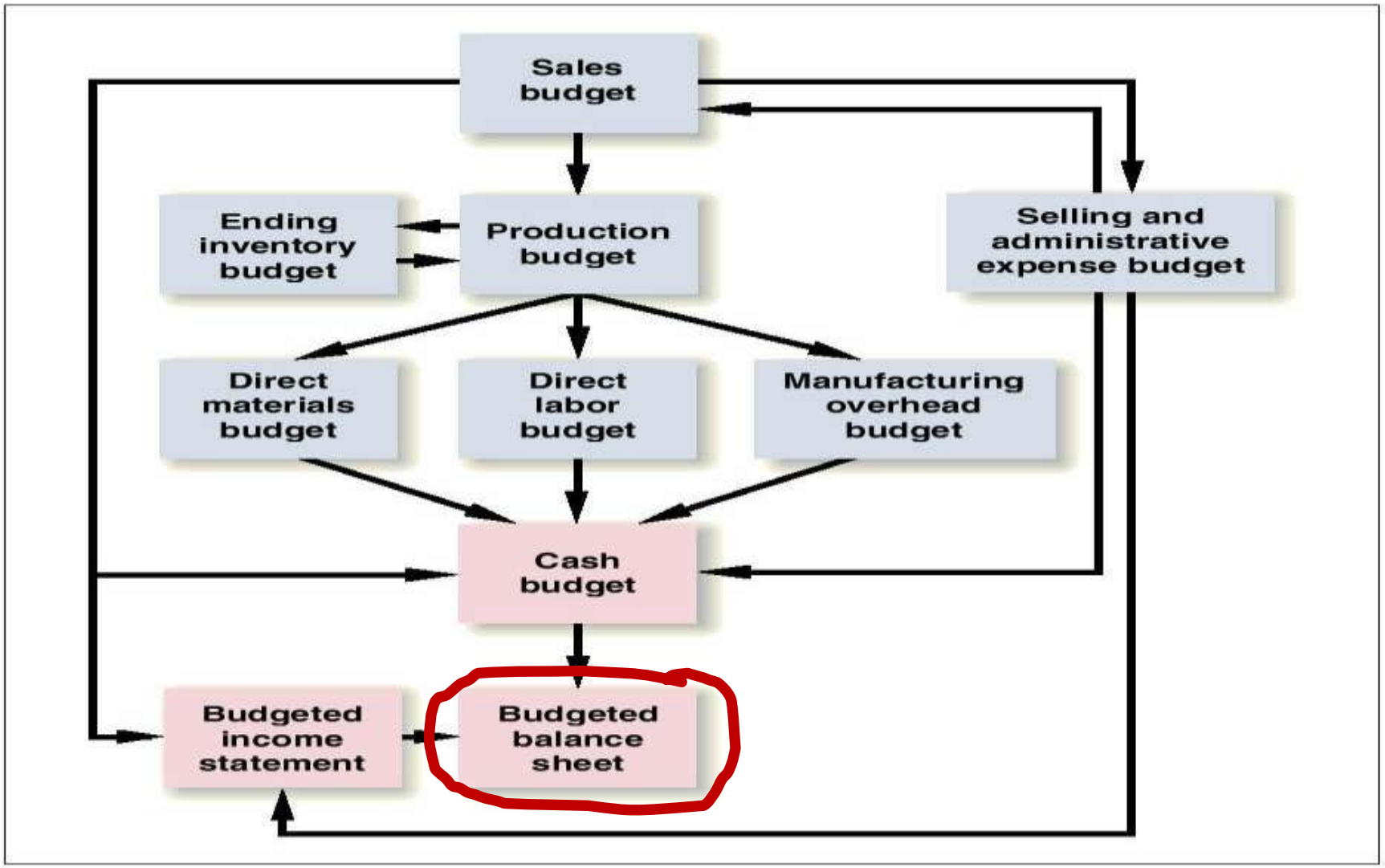
from Cash Budget Financing

$241,000 - $2,000

$501,000 - $260,000

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

MASTER BUDGET

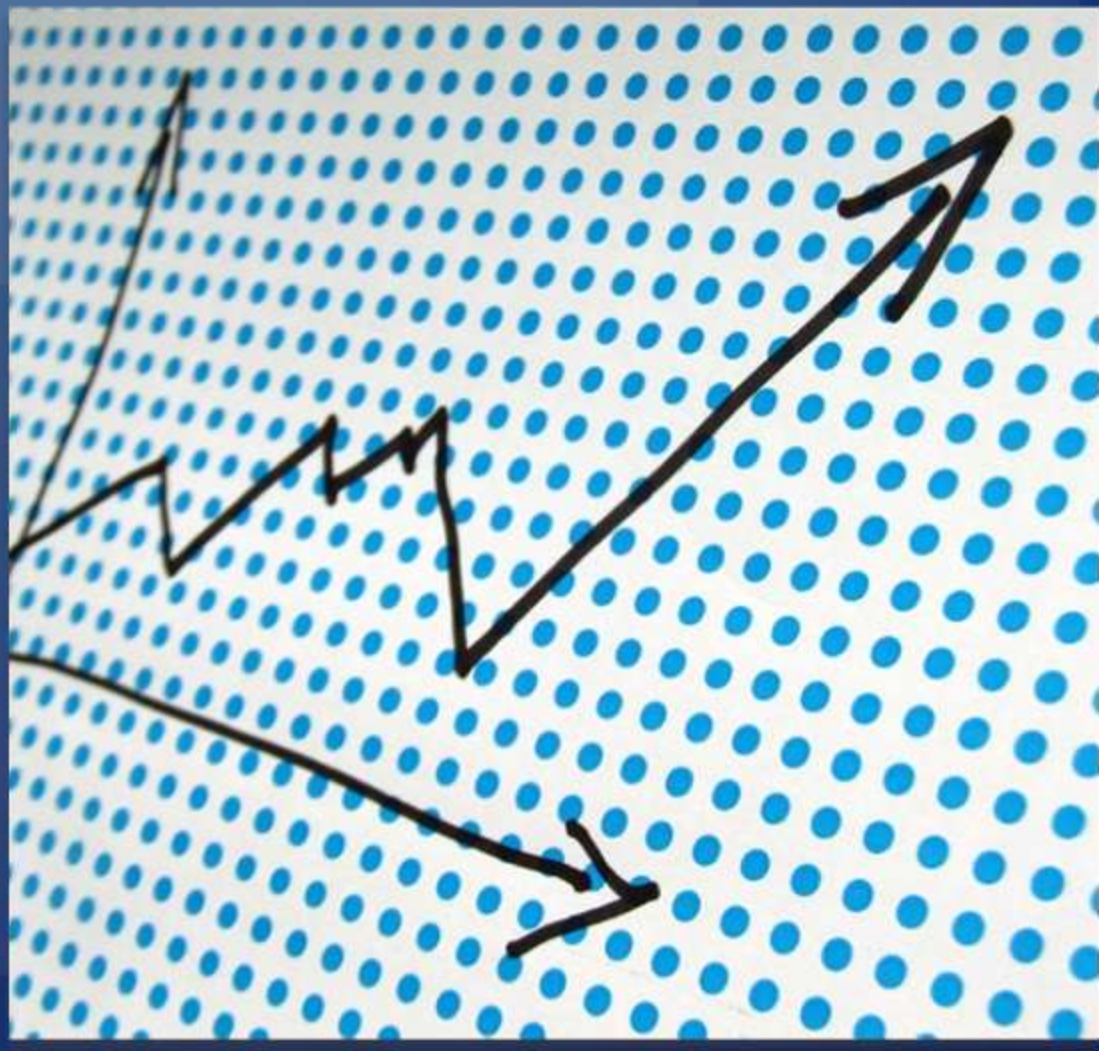


GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

BUDGETED BALANCE SHEET

Sixer's reported the following account balances prior to preparing its budgeted financial statements:

- Land - 500,000Php
- Common stock - 200,000Php
- Retained earnings - 146,150Php



GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

Sixer's Company
Budgeted Balance Sheet
June 30

Current assets		
Cash	$	43,000
Accounts receivable		75,000
Raw materials inventory		4,600
Finished goods inventory		24,950
Total current assets		147,550
Property and equipment		
Land		50,000
Equipment (assumed)		367,000
Total property and equipment		417,000
Total assets	$	564,550
Accounts payable	$	28,400
Common stock		200,000
Retained earnings		336,150
Total liabilities and equities	$	564,550

25%of June sales of $300,000

11,500 lbs. at $0.40/lb.

5,000 units at $4.99 each

50% of June purchases of $56,800

Sixer's Company
Budgeted Balance Sheet
June 30

Current assets		
Cash	$	43,000
Accounts receivable		75,000
Raw materials inventory		4,600
Finished goods inventory		24,950
Total current assets		147,550
Property and equipment		
Land		50,000
Equipment (assumed)		367,000
Total property and equipment		417,000
Total assets	$	564,550
Accounts payable	$	28,400
Common stock		200,000
Retained earnings		336,150
Total liabilities and equities	$	564,550

Beginning balance	$146,150
Add: net income	239,000
Deduct: dividends	(49,000)
Ending balance	$336,150

HUMAN FACTORS IN BUDGETING

The success of a budget program depends on three important factors:

- Top management must be enthusiastic and committed to the budget process.
- Top management must not use the budget to pressure employees or blame them when something goes wrong.
- Highly achievable budget targets are usually preferred when managers are rewarded based on meeting budget targets.

GROUP 6: Alodia LOPEZ, Eunice GRANADO, Edmar ALMARIO

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