**Week 8 Folder – Budget’s continued & Relevant Cost**

Weekly Schedule

1) Read Lecture

2) DB 8 Wed **Due: Wed**

3) Collaborate online session

4) Assign #14 **Due: Thur**

5) DB 8 Sat **Due: Sat**

6) Assign #15 **Due: Sat**

**Lecture / Reading:**

Read pages 108 - 119 (Chapter 7)

Read pages 157 - 158

This week we will continue to work on budgets and discuss some of the decisions that budgets can help businesses make.

If you remember back to the earlier chapters of this course we discussed the ideal of relevant cost. Simply put: what costs are avoidable if I chose Plan A over Plan B. Don’t forget that sunk cost are always non-relevant as they are looking back. The budget process allow us the see and predict the impact of these cost changes. If you have a well built budgeting software application you should be able to run what if analysis very easily.

The analysis required to make decision is dependent on the question the business is trying to answer. Some questions are very specific while other look at the broader picture.

Do we get eliminate or keep a business segment?

Do we keep or drop a specific product line?

Do we make or buy the parts we need?

Do we take this special order?

How do we utilize our resources the most effectively?

In our budget discussion we forecast what we would need and decided how we would accomplish our goals. What we discovered is there are certain area’s in the process that stop us from producing more goods, services, etc. This could be the plant size does not allow the assembly line to be any longer, the number of employees limits our production capacity, or the raw goods have a limited shelf life.

I do not anticipate we will be able to solve every problem or go into great depth on these questions. My goal is to simply make you aware of the questions, possible approaches, and to ensure you understand the concept of relevant cost. In addition, we will use this week to solidify the understanding of the budget preparation process.

Don’t forget that service and merchandised based businesses also prepare budgets. The budget for a service based business would have less parts but predicting labor is a critical components of the business success. In the merchandising arena the production budget is replaced with a purchasing budget for the items to be sold. Budgeting for these two business types is often more complex and requires more estimates due to the unpredictability of the end consumer.

**Homework and Discussion Forum**

1) Discussion Board**: DB 8 Wed**

You must have a MINIMUM of three posts. I expect a mix of original and response post.

*Topic:* Discuss the decision making process. Provide an example of a decision you have had to make. What where the relevant cost, irrelevant cost, and other decision making factors.

2) **Assign #14**

3) Discussion Board: **DB 8 Sat**

You must have a MINIMUM of three posts. I expect a mix of original and response post.

*Topic:*  Case Study, Homework, etc

4) **Assign #15** Problems