**Week 7 Folder – Budget’s**

Weekly Schedule

1) Read Lecture

2) DB 7 Wed **Due: Wed**

3) Collaborate online session

4) Assign #12 **Due: Thur**

5) DB 7 Sat **Due: Sat**

6) Assign #13 **Due: Sun**

**Lecture / Reading:**

Read pages 140 - 156 Chapter 9

(Skip pages 157 - 158 - we will discuss in future weeks)

Over the next three weeks we will be discussing how businesses make decisions and plan for the future. The first step in this journey is to discuss the Master Budget - this week we will focus on the Operating Portion.

You may have heard the expression: “ You spend what you make.” If you plan your spending, watch your spending, and pay attention to where you dollars go you will spend less, have more control over your finances, and often afford items that you thought were unreachable before. The budget process for a household is different than a business but the benefits are the same.

Like household budgets business budgets are more effective if all the participants have a say in the process. The Master Budget is comprised of several types of budgets that are interrelated. The first step in the Master Budgeting Process is to determine expected sales and the cash collection pattern of the sales in order to prepare the Sales Budget. The second budget, the Production Budget, plans for enough production to cover sales and provide the required ending inventory to start the next period.

The Production Budget numbers then flow into the Direct Material and Direct Labor Budget. These two budgets predict the amount of material/labor required based on the expected production. After the requirements are calculated the amount of cash needed to meet these requirements is determined.

The Manufacturing Budget is the fourth step of the process. This budget is generally modeled around the cost driver and is used to predict the cash required to meet overhead. The budget should include indirect material, indirect labor, and all other manufacturing overhead cost. Be careful that you do not include non-manufacturing cost in this part of the process.

Selling and Administrative Expenses are also a necessary part of the budgeting process as these cost are required even if there is not production. In larger companies this budget would be a cummulation of smaller department budgets from Accounting, Legal, Marketing, etc. This budget will contain fixed and variable cost that relate to the the amount of production.

The last and probably the most important budget is the cash budget. The cash budget lays out the cash receipts and the cash disbursements for the budget period. After these two pieces are compiled the accountant will generally provide a summary cash budget for a quick reference. Often budgeted financial statements are also prepared at this time.

Remember the key to a good budget is open communication, future thinking, and attention to the details. Each and every step is important as it affects the next step in the process. Every companies budget will be different and have unique challenges. The budgeting process may be painful but it open the lines of communication, allows companies to predict the future, and respond to changes quicker.

To learn more about the step by step process and the individual statements you can the lecture and step by step example below.

<http://denniscaplan.fatcow.com/Chapter20.htm>

Other resources:

Susan Crosson - Budget series

We will use these over the next three weeks.

1 Overview <http://www.youtube.com/watch?v=CMvYWi8EMeE>

2 Sales <http://www.youtube.com/watch?v=pPLkO5z2IHg>

3 Production <http://www.youtube.com/watch?v=OI8KC4ymzzw>

4 Material Purchase <http://www.youtube.com/watch?v=zDMWdy_rRPg>

5 Direct Labor <http://www.youtube.com/watch?v=-tjhl8-_9sA>

6 Process Overhead <http://www.youtube.com/watch?v=KF9hfOmdhS8>

7 Selling and Admin Expenses <http://www.youtube.com/watch?v=5JhwLMhhyRY>

8 Cost of Goods Manufactured http://www.youtube.com/watch?v=ZyQZ4SZvpdA

9 Income Statements <http://www.youtube.com/watch?v=wC1O--V1uz8>

10 Cash Budget http://www.youtube.com/watch?v=PvL-WxJ3\_kM

**Homework and Discussion Forum**

1) **DB 7 Wed**

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

*Topic:* Budgets - this is wide open BUT make sure you stay on topic. I have posted some discussion ideas for you.

2) **Assign #12**

3) **DB 7 Sat**

You must have a MINIMUM of three posts: at least one original and one response.

*Topic:* Discuss the homework

5) **Assign #13**



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