

ACG 2071 - Exam 3

30 questions

Breakdown by chapter:

Chapter 5 – 17 questions (7 conceptual)

Chapter 6 – 12 questions (1 conceptual)

PwC Presentation – 1 question (1 conceptual)

Major topics covered:

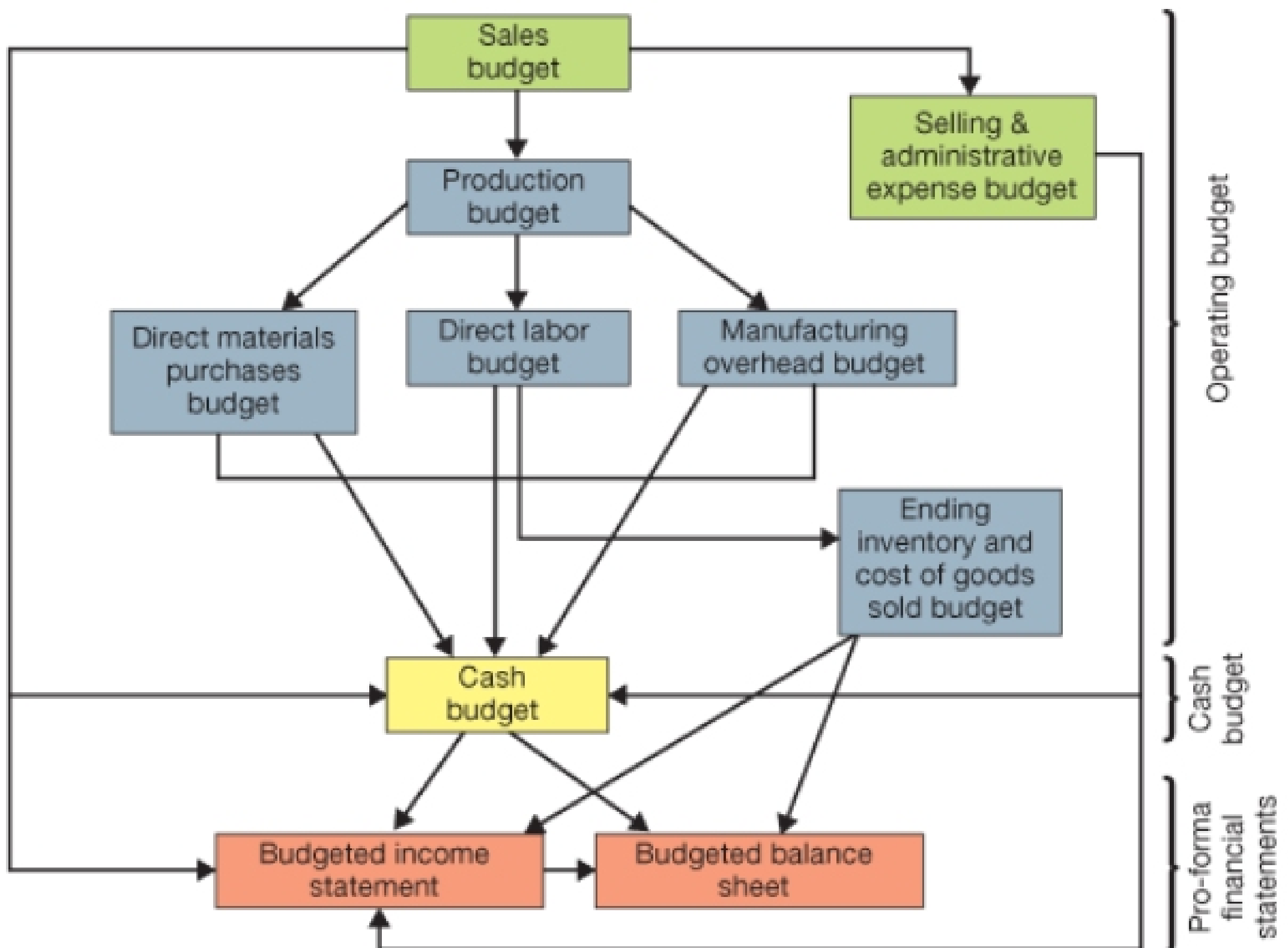
Chapter 5

Budgeting in general

- o An important part of planning and control
- o Incremental budgeting: using last years budgeting continued into this year, more cost effective
- o Zero based budgeting: start from zero, can be from april to april, it has to be twelve months, but does not have to be December 31 to January 1 of following year.
- o Top down budgeting: involves starting at the top management and go down
- o Bottom up budgeting: the most effective—start at the bottom and go up, it is the best choice because they bottom level workers know the customers the best and can fit their needs.
- o Standard price: the price that **should** be paid for a unit of input
- o Standard cost per unit: given as a direct material, direct labor, or overhead in standard quantity and price

- o To calculate standard cost per unit you multiply direct materials cost by unit and add that to the multiple of direct labor cost and unit and do the same for variable overhead. Add all three components together.

Components of the master budget:



- I. The first component of the master budget is the **operating budget**, which provides a plan for operations during the budget period. Development of the operating budget begins with the sales

budget. From those sales estimates, budgeted production, direct materials, direct labor, manufacturing overhead, and selling and administrative expenses are determined.

- o **Always start with the sales budget**
- o **Next is selling and administrative expense budget**
- o **Then production budget**
- o **Finally the direct materials, direct labor and manufacturing OH budget**
 - **Remember a quarter is three months**
 - **1st quarter: January, February, March**
 - **2nd quarter: April, May, June**
 - **3rd quarter: July, August, September**
 - **4th quarter: October, November, December**

II. Sales Budget

- o the sales and marketing departments prepare the **sales budget**, which forecasts the number of units expected to be sold, as well as the prices expected to be charged. Since the sales budget drives all other components of the master budget, it is imperative that it be as realistic as possible. If the sales and marketing departments are too optimistic in their sales forecast, too much inventory will be produced or purchased, unnecessary costs will be incurred, and the company will fail to achieve its budgeted net income.
- o To prepare the sales budget, we need both the budgeted sales price and the unit sales forecast

III. Selling & Administrative Expense Budget

- o The **selling and administrative expense budget** estimates when and how much selling and administrative expense will be incurred