

Management Accountancy

Unit 9

Master Budget

Lecturer: Dr. Jeetendra Dangol

Contents

- Master Budget

Learning Objectives

- Enumerate the various stages in the budget process
- Prepare functional budgets (schedules for Master Budget)

Master Budget

- A master budget is a summary budget of all the budgets
- It represents the overall plan of action and goals for the future period of the enterprise
- A master budget sometimes called a comprehensive budget is the summary of total budget package for a business firm
- It is a formal statement of management's expectation regarding sales, production, cost and other financial transactions of the firm for coming period

Master Budget (Contd.)

- Horngren et al. (1999, 2011) “The master budget quantifies target for sales, cost driver activity, purchases, productions, net income, cash position and any other objective that management specifies. It expresses these amounts in the form of forecasted financial statements and supporting schedules. These supporting schedules provide the information that is to highly detailed to the actual financial statements. Thus the master budget is a periodical business plan that includes a coordinated set of detailed operating schedules and financial statement.”

Master Budget (Contd.)

- Summary budget, incorporating its component functional budgets which is finally approved, adopted and employed
- A tool for coordinating all individual budgets of a concern into an acceptable effective plan
- It is the comprehensive financial plan
- Master budget depends on the type and size of business
- Contains consolidated summary of all the budgets prepared by the organization

Master Budget (Contd.)

Functional Budgets

Sales budget

Production/Purchase budget

Wages, overhead, operating exp. budget etc.

Financial Budgets

Cash budget

Income statement

Balance sheet



**Master
Budget**

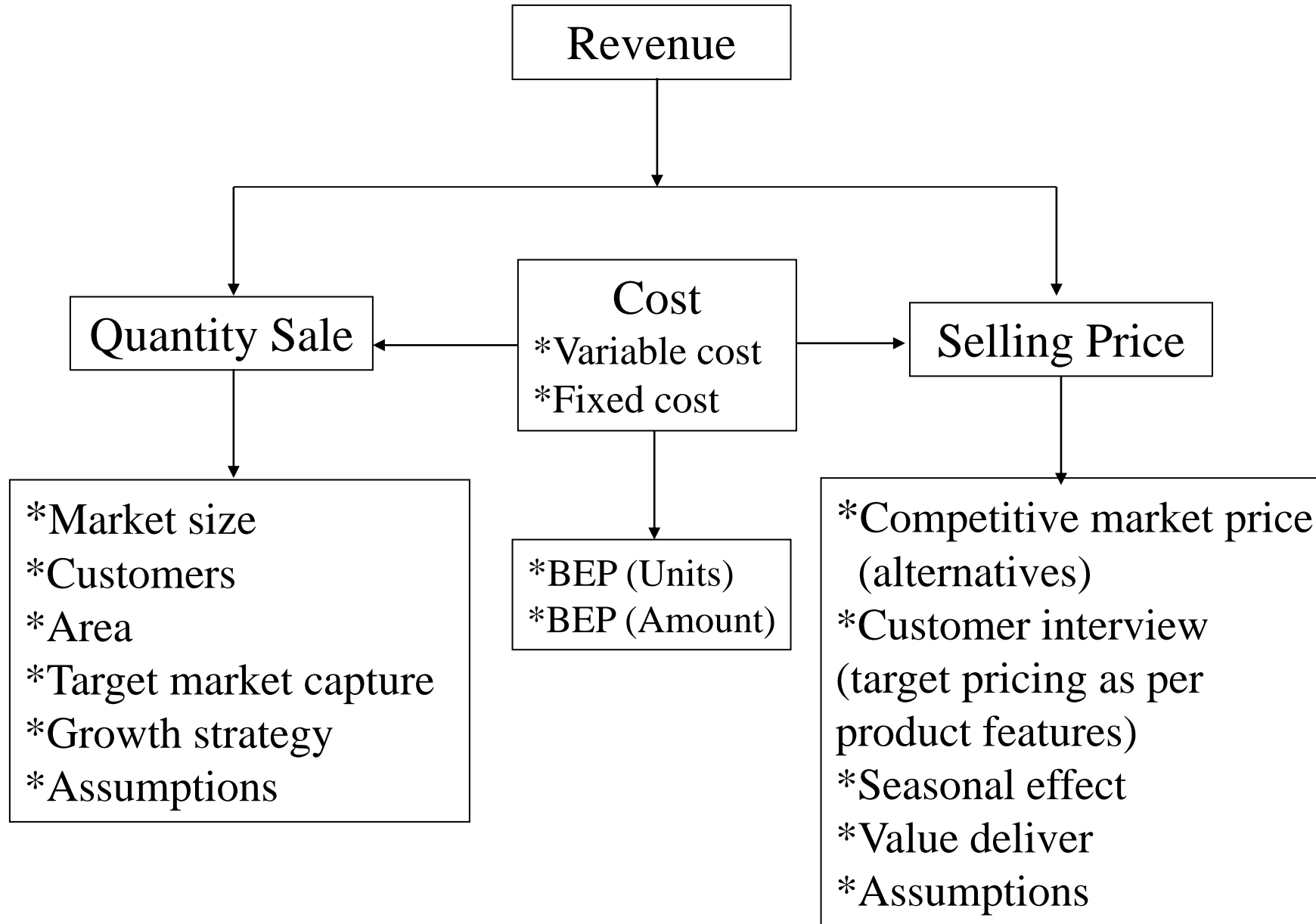
Financial Statements

Schedules (Functional Budget)

1. Sales Budget
2. Production Budget
3. Raw Material Consumption Budget
4. Raw Material Purchase Budget
5. Direct Labor cost Budget
6. Overhead Expenses Budget
(Marketing, Office, Manufacturing Overhead – All expenses)
7. Cost of Goods Sold Budget
8. Account Receivable Budget
9. Account Payable Budget
10. Loan Repayment Schedule (if bank loan)

Financial Statements

- Budgeted Balance Sheet
- Budgeted Income Statement
- Budgeted Cash Flow Statements



Source: Author

Sales Budget

- A sales budget is a forecast -- expect to sell during a budget period
- It is forecast of total sales expressed and incorporated in quantities and money
- A sales budget is the starting point in which other budgets are also based
- All other budgets are based on sales budget
- Sales budget ---- backbone of the enterprise

Sales Budget

- **Key points**

- Factors consideration
- Seasonal effect
- Pricing technique
- Growth strategy
- Market share

- **Key factors**

- Budgeted sales units
- Budgeted selling price

Budgeted Sales Revenue (in Rs.) = Sales units × Selling Price Per Unit

QUESTION 1

Months	Jan-2019	Feb.	March	April	May
Sales units	1,000	2,000	3,000	2,000	1,000

Budgeted selling price = Rs. 100 per unit

Required: Sales Budget for 3 months ending March

Solution:

Sales Budget

For 3 months from 1st Jan. to end of March

Months	Sales Units	Price	Sales Revenue
January	1,000	100	1,00,000
February	2,000	100	2,00,000
March	3,000	100	3,00,000
Total	6,000		6,00,000

Production Budget

- The production budget is prepared after preparing the sales budget
- A production budget incorporates the estimates of total volume of production with the scheduling of operation by days, weeks and months
- It specifies the number of units of product
 - each product
 - to satisfy the sales forecast
 - achieve the desired level of closing finished goods

Production Budget (Contd.)

Key points

- Sales budget
- Opening and closing inventory to be held
- Installed plant capacity and existing utilization
- Policy of the management regarding manufacture or purchase of component
- Production cycle

Key information

- Budgeted sales units
- Inventory policy

Production Budget (Contd. Qu 1)

- Key Information
 - Sales units (from sales budget)
 - Inventory policy
 - Inventory should meet 50% of next month's sales
 - Expected inventory balance as on 1st January is 500 units
- **Required:** Production Budget for 3 months ending March
- Solution:

Production Budget

For 3 months from 1st Jan. to end of March

Months	Jan	Feb	March	April	May
Budgeted Sales Units	1,000	2,000	3,000	2,000	1,000
Add: Ending inventory	1,000	1,500	1,000	500	
Total need	2,000	3,500	4,000	2,500	
Less: Beginning Inventory	500	1,000	1,500	1,000	
Budgeted Production units	1,500	2,500	2,500	1,500	

Raw Material Consumption Budget

- Quantities of raw materials and components required to produce the budgeted production units which are determined by production budget
- Raw material consumption budget serves the following purposes:
 - It assists in control of raw material usage
 - It provides data for calculation of raw material cost of manufacture
 - It helps the fixation of maximum and minimum level of raw material for effective planning

Key information

- Budgeted production units and
- Raw material usage rate by each type of raw material.

Raw Material Consumption Budget (Contd. Qu 1)

- Key information
 - Production units (from production budget)
 - Raw material consumption rate
 - Raw material “X” required 2 kg for 1 unit of finished goods
- **Required:** Raw Material Consumption Budget for 3 months ending March
- Solution:

Raw Material Consumption Budget

For 3 months from 1st Jan to end of March

Months	Jan	Feb	March	April	
Budgeted Production units	1,500	2,500	2,500	1,500	
Raw material consumption (kg) (@ 2 kg per unit)	3,000	5,000	5,000	3,000	

Raw Material Purchase Budget

Key points

- It assists the purchase department in suitable planning the purchase activities and materials are delivered when needed
- It assists in control of raw material purchase price
- It provides as a guide for timely provision of fund for raw material purchasing

Key information

- Budgeted total raw material consumption units for each material
- Inventory policy for each material
- Raw material purchase price for each material.

Raw Material Purchase Budget (Contd. Qu 1)

- Key information
 - Raw material consumption quantity (from raw material consumption budget)
 - Inventory policy
 - Inventory should meet sufficient of following month's consumption
 - Raw material purchase price = Rs 5 per kg
- **Required:** Raw Material Purchase Budget for 3 months ending March
- Solution:

Raw Material Purchase Budget
For 3 months from 1st Jan to end of March

Months	Jan	Feb	March	April
Raw material consumption (kg)	3,000	5,000	5,000	3,000
Add: Ending inventory	5,000	5,000	3,000	
Total need	8,000	10,000	8,000	
Less: Beginning Inventory	3,000	5,000	5,000	
Raw material purchase in Kg	5,000	5,000	3,000	
Raw material purchase in Rs. (@ Rs. 5 per kg)	25,000	25,000	15,000	

Direct Labour Cost Budget

Key points

- It provides planning data regarding number of each grade or class of workers required to achieve the pre-determined production units.
- It assists to estimate cost of labour in each period and control of labour rates
- It provides as a guide for timely provision of fund for making payment to labours
- Information regarding the period of training necessary

Key information

- Budgeted production units
- Time requirement rate for each product with different grades of labours
- Wage payment rate on the basis of time or unit wage rate of output.

Direct Labour Cost Budget (Contd. Qu 1)

- Key Factors
 - Production units (from Production budget)
 - Direct labour hours required
 - Skilled Labour hours = 2 hours per unit
 - Unskilled labour hours = 3 hours per unit
 - Labour hour rate
 - Skilled Labour hours rate = Rs 100 per hour
 - Unskilled labour hours = Rs. 70 per hour
- **Required:** Direct Labour Cost Budget for 3 months ending March
- Solution:

Direct Labour Cost Budget, For 3 months from 1st Jan to end of March

Months	Budgeted Production units	Skilled		Unskilled		Total	
		Hours (@2 hrs. per unit	Amount (Rs. 100 per hr.)	Hours (@3 hrs. per unit	Amount (@Rs. 70 per hr.)	Hours	Amount
January	1,500	3,000	300,000	4,500	315,000	7,500	615,000
February	2,500	5,000	500,000	7,500	525,000	12,500	1,025,000
March	2,500	5,000	500,000	7,500	525,000	12,500	1,025,000
Total	6,500	13,000	1,300,000	19,500	1,365,000	32,500	2,665,000

Overhead Budget

- Manufacturing Overhead Budget
- Office and Administrative Overhead Budget
- Selling and Distribution Overhead Budget

Manufacturing Overhead Budget

Key point

- It provides information for working out the pre-determined overhead recovery rates
- It provides the behavior of different types of costs required for preparation of overhead budget
- It serves the level of activity attained in future so that the expenses are estimated accurately

Manufacturing Overhead Budget (Contd.)

Key information

- Behavior of overhead costs
- Budgeted production units
- Unit variable manufacturing overhead rate and fixed manufacturing overhead for the budgeted period

Office and Administration Overhead Budget

- Office and administrative overhead budget represents forecast of all administrative expenses
- Administrative overheads are mostly fixed in nature
- Examples
 - Director's remuneration,
 - Legal charges,
 - Audit fees,
 - Employees salary,
 - Utility expenses (lighting and heating, telephone, water)
 - Property taxes,
 - Postage etc.

Selling and Distribution Overhead Budget

- Represents the forecast of all costs relating to selling and distribution of products.
- Direct selling expenses
- Distribution expenses
- Establishment expenses of various sales office
- Expenses on publicity and advertisement

Selling and Distribution Overhead Budget (Contd.)

Key information

- Behavior of overhead costs (VC, FC and Semi-VC)
- Budgeted production units and sales price or total budgeted sales revenue.
- Unit variable selling and distribution overhead rate or percentage of sales figure and fixed non-manufacturing overhead for the budgeted period

QUESTION 2

From the information given below, prepare a manufacturing overhead budget for the quarter ending December 31st, 19xx :

Budgeted Output during the Quarter	:	4,000 units
Fixed Overheads	:	Rs. 40,000
Variable Overhead (Varying at the Rate of Rs. 10 per unit)	:	Rs. 40,000
Semi-variable Overhead (40% Fixed and 60% Variable)	:	Rs. 5 per unit

SOLUTION:

**Manufacturing Overhead Budget
For the Quarter Ending Dec. 31, 19xx**

	Rs.
Fixed Overheads	40,000
Variable Overheads	40,000
Semi-variable Overheads :	
Fixed (40% of 5 x 4,000)	8,000
Variable (60% of 5 x 4,000)	12,000
Total Overheads Cost	1,00,000

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Thank You