CHAPTER FOUR

THE MASTER BUDGET

2.1 Overview of Budgeting

Developing a budget is the most important accounting tool to plan and control operations. A budget is the quantitative expression of a proposed plan of action by management for a future time period. It is an aid to the coordination and implementation of the plan. A budget can cover both financial and a non-financial aspect of these plan and help management of the organization to follow in the upcoming period.

Budgets covering financial aspects quantify managements expectations regarding future income, cash flows, and financial position. Just as individual financial statements are prepared covering past periods, so they can be prepared covering future periods for example, a budgeted income statement of cash flows, and a budgeted balance sheet. Underlying these financial budgets can be non-financial budgets, say, units manufactured or sold and number of new products being introduced to the market.

A budget can also be described as a detailed plan outlining the acquisition and use of financial and other resources over a specified time period.

2.2 Planning and Control

A good budgeting system should provide for both planning and control. Planning involves developing objectives and preparing various budgets to achieve those objectives. Control involves the steps taken by management to ensure that the objectives set down at the planning stage are attained and that all parts of the organization work together towards those objectives. Thus, budgets can be used as a benchmark that allows managers to compare actual performance with expected or desired performance.

2.3 Advantages of Budgeting

There are many advantages to budgeting, including:

- Forces all levels of management to plan ahead.
- Facilitate communication and coordination.
- Provides definite objectives for controlling profit and operations.
- Motivates personnel throughout the organization to meet planned objectives.
- Evaluating performance and providing incentives.

2.4 Choosing a Budget Period

Budget periods vary in length. Some may be as short as a month, whereas others may cover many years. The most common budgeting period, however, is a year. The annual budget is often subdivided by months for the first quarter and by quarters for the remainder of the year. The budgeted data for a year are frequently revised as

the year unfolds. For example, at the end of the first quarter, the budget for the next three quarters is changed in light of new information.

2.5 Types of budget

1. **Master budget:** a set of interrelated budgets covering all phases of an organization's operations for a specific period of time.
2. **Budgeted financial statements:** show how a company's financial statements will appear at a specified period of time. It includes budgeted income statement, budgeted balance sheet, and budgeted statement of cash flows.
3. **Capital budget:** is a plan for the acquisition of capital assets like equipment.
4. **Financial budget:** is a plan that shows how a company will acquire its financial resources.
5. **Rolling budget also known as revolving or continuous budget:** is a budget that is always available for a specific future period. It is one that covers a 12-month period but which adds a new month on the end as the current month is completed.

2.6 The Master Budget: Overall Plan

The master budget consists of a number of separate, but interrelated budgets. The components of the master budget for manufacturing firms are discussed in the following paragraphs.

The two major parts of a master budget are the operating budget and the financial budget. **Operating budget** (profit plan) is a major part of a master budget that focuses on the income statement and its supporting schedules.

Financial budget is the part of the master budget that focuses on the effects that the operating budget and other plans (such as capital budgets and repayments of debt) will have on cash.

1. The Sales Budget - The sales or *revenue* budget is a detailed schedule showing the expected sales for the coming period expressed in both birr and units of the product. It helps to determine how many units of a product will have to be produced. The sales budget is usually accompanied by a schedule of expected cash receipts. The schedule of expected cash collections should take in to account any delays that are anticipated in collecting credited sales.

2. The Production Budget – lists the number of units that must be produced during the budgeted period to meet the sales demand and to provide for desired ending inventory. The budgeted production for each period can be determined by adding together the budgeted sales and the desired ending inventory and then subtracting the beginning inventory. The desired ending inventory in units for each period is usually a predetermined percentage of budgeted unit sales for the following period. The production budget is typically expressed in terms of physical units rather than in dollars.

In a merchandising firm, a merchandise purchases budget would replace the production budget. The merchandise purchases budget shows the amount of goods to be purchased from suppliers each period. This can be determined by adding together the budgeted sales and the desired ending inventory and then subtracting the beginning inventory. As in a manufacturing firm, the desired ending inventory in units is usually some predetermined percentage of the unit sales for the following period.

3. The Direct Materials Budget - Once production needs have been determined, a direct materials budget should be prepared. This budget details the materials that will be required to fulfill the production budget and to ensure adequate inventory levels. Sufficient amounts of raw material must be acquired to meet both production needs and to provide for desired ending inventories. Materials purchases can be determined by adding together the materials required for production needs and the desired ending materials inventories and then subtracting the beginning inventory. The desired ending inventory in units is usually a predetermined percentage of the number of units that are expected to be used in production the following period. The direct materials budget is usually accompanied by a schedule of expected cash disbursements for raw materials. This schedule should take in to account any delays that are anticipated in paying for materials.

4. The Direct Labor Budget – is a quantitative estimate of the total direct labor hours required to complete the expected production during the budget period.

5. The Manufacturing Overhead Budget - The manufacturing overhead budget lists all production costs other than direct materials and direct labor. Manufacturing overhead costs should be broken down by cost behavior for budgeting purposes. Typically, the variable portion of manufacturing overhead is assumed to be proportional to budgeted activity and the fixed portion is assumed to be constant in total. Under the assumption that depreciation is the only significant non-cash manufacturing overhead expense, the manufacturing overhead expense can be converted to a cash flow basis by tacking out any depreciation charges.

6. Ending Finished Goods Inventory Budget - This budget details the amount and value of ending inventory on the budgeted balance sheet. The unit product cost from this budget is also used to compute the cost of goods sold for the budgeted income statement. The details of the computations will depend upon whether variable or absorption costing is used. Managers often want budgets on an absorption-costing basis since that is the basis that will ordinarily be used to report results to outsiders. Data for the computations in this schedule are found in the direct materials, direct labor, and manufacturing overhead budgets.

7. The Selling and Administrative Expense Budget - The selling and administrative budget lists the anticipated non-manufacturing expenses for the budget period. In practice this budget is usually made up of many smaller individual budgets negotiated with various managers having sales and administrative

responsibilities. Setting appropriate budget limits for selling and administrative functions is one of the most difficult problems in management accounting and is just beginning to be understood.

8. The Cash Budget - The cash budget should be broken down into time periods that are as short as feasible in order to alert management to problems that may occur due to fluctuations in cash flows. As anyone with a checking account knows, it is quite possible to have a positive overall cash flow during a period and yet be overdrawn at some point during the period. The cash budget is composed of four major sections:

- **i.** The receipts section.
- **ii.** The disbursements section.
- **iii.** Cash receipts, plus the beginning cash balance, less cash disbursements results in cash excess or deficiency. If a deficiency exists, additional funds must be arranged for. If excess exists, previous borrowing can be repaid or short-term investments made.
- **iv.** The financing section of the cash budget provides a detailed account of the borrowing and repayments projected to take place during the budget period. It also includes a detailing of interest payments.

9. Budgeted Financial Statements - The last components of the master budget consist of the budgeted income statement and the budgeted balance sheet. The balance sheet is perhaps the most difficult of the statements to construct in the examples we use. It requires pulling together data from a variety of schedules and sources.

Illustration - Merchandising Firm

Vision Company, an office supplies specialty store, prepares its master budget on a quarterly basis. The following data have been assembled to assist in the preparation of the master budget for the first quarter of a current year.

a As of December 31 (end of the prior quarter), the companys general ledger showed the following account balances:

	Debit	**Credit**
Cash	$ 48,000	
Accounts Receivable	224,000	
Inventory	60,000	
Buildings and Equipment (net)	370,000	
Accounts Payable		93,000
Capital Stock		500,000
Retained Earnings		109,000
Totals	**702,000**	**702,000**

b Actual sales for December and budgeted sales for the next four months are as follows:

December	$ 280,000	March	300,000
January	400,000	April	200,000
February	600,000		

c Sales are 20% for cash and 80% on credit. All payments on credit sales are collected I the month following sale. The accounts receivable at December 31 are a result of December credit sales.

d The companys gross profit rate is 40% of sales.

e Monthly expenses are budgeted as follows: salaries and wages, $ 27,000 per month; advertising, $ 70,000 per month; shipping, 5% of sales; depreciation, $ 140,000 per month; other expenses, 3% of sales.

f At the end of each month, inventory is to be on hand equal to 25% of the following months sales needs, stated at cost.

g One-half of a months inventory purchases is paid for in the month of purchase; the other half is paid for in the following month.

h During February, the company will purchase a new copy machine for $ 1,700 cash. During March, other Equipment will be purchased for cash at a cost of $ 84,500.

i During January, the company will declare and pay $ 45,000 in cash dividends.

j The company must maintain a minimum cash balance of $ 30,000. An open line of credit is available at a local bank for any borrowing that may be needed during the quarter. All borrowing is done at the beginning of a month, and all repayments are made at the end of a month. Borrowings and repayments of a principal must be in multiples of $ 1,000. Interest is paid only at the time of payment of principal. The annual interest rate is 12%.

Required: Prepare a master budget for the quarter comprised of:

1. Sales budget (Supplement your sales budget with a schedule of expected cash collections)
2. Inventory purchases budget (along with schedule of cash payments for inventories)
3. Operating Expenses budget (along with a schedule of cash payments for operating expenses)
4. Cash Budget
5. Budgeted Income Statement for the quarter
6. Budgeted Balance Sheet

2.7 Budgeting and Responsibility Accounting

Organizational Structure and Responsibility

Organization structure is an arrangement of lines of responsibility within the entity. Each manager, regardless of level, is in charge of a responsibility center. A ***responsibility center*** is a part, segment, or subunit of an

organization, whose manager is accountable for a specified set of activities. The higher the managers level, the broader the responsibility center and the larger the number of his or her subordinates in general. ***Responsibility accounting*** is a system that measures the plans (by budgets) and actions (by actual results) of each responsibility center. Four major types of responsibility centers are:

- ***Cost center*** the manager is accountable for costs only.
- ***Revenue center*** the manager is accountable for revenues only.
- ***Profit center*** the manager is accountable for revenues and costs.
- ***Investment center*** the manager is accountable for investments, revenues, and costs.

2.8 Feedback and Fixing Blame

Budgets coupled with responsibility accounting provide systematic help for managers, particularly if managers interpret the feedback carefully. Managers, accountants, and students of management accounting repeatedly tend to play the blame game using variances appearing in the responsibility accounting system to pinpoint fault for operating problems. In considering variances, initially managers should focus on whom they should ask and not on whom they should blame. Variances only suggest questions or direct attention to persons who should have the relevant information. Thus, variances, properly used, can be helpful in evaluating managers performance.

2.9 Responsibility and Controllability

Controllability is the degree of influence that a specific manager has over costs, revenues, or other items in question. A controllable cost is any cost that is primarily subject to the influence of a given responsibility center manager for a given time period.

A responsibility accounting system could either exclude all uncontrollable costs from a managers performance report or segregate such costs from the controllable costs. Thus, a manager should be held responsible for those items of revenues and costsand only those itemsthat the manager can actually control to a significant extent. The manager who is held responsible for a specific cost should have a budget specifying a limit on how much can be spent. This limit may be adjusted, depending upon the activity during the period.

2.10 Human Aspects of Budgeting

Management must keep clearly in mind that budgeting involves coordinating and motivating people and the human dimension is of primary importance.

First, top managers must clearly convey the message in actions as well as in words that budgeting is important. Top management has the ultimate responsibility for budgets of the organization they manage. Management at all levels should understand and support the budget and all aspects of the management control system. Top management support is especially critical for obtaining active line management participation in the formulation

of budgets and for successful administration of the budget. If top management appears to be ambivalent about the benefits of budgeting, others in the organization will be reluctant to commit their own time and energy to the budgeting process.

Second, if there is a preoccupation with getting every birr and cent right or with placing blame, the budgeting process will be resented and managers will attempt to "game the system." Budgets should not be used as a club. They should be a way of ensuring that everyone understands what is expected. Significant deviations from the budget should be investigated so that managers understand changing conditions and their implications for the organization. Managers should not ordinarily be punished for deviations from the budget.

Illustration - Manufacturing Firm

Great Company manufactures and sells a product whose peak sales occur in the third quarter. Management is now preparing detailed budgets for 20x4, the coming year, and has assembled the following information to assist in the budget preparation:

1) The companys product selling price is Br. 20 per unit. The marketing department has estimated sales as follows for the next six quarters.

	20x4 Quarters				**20x5 Quarters**	
	1	**2**	**3**	**4**	**1**	**2**
Budgeted sales in units	10,000	30,000	40,000	20,000	15,000	15,000

2) Sales are collected in the following pattern; 70% of sales are collected in the quarters in which the sales are made and the remaining 30% are collected in the following quarter. On January 1, 20x4, the companys balance sheet showed Br. 90,000 in account receivable, all of which will be collected in the first quarter of the year. Bad debts are negligible and can be ignored.

3) The company maintains an ending inventory of finished units equal to 20% of the next quarters sales. The requirement was met on December 31,20x3, in that the company had 2,000 units on hand to start the New Year.

4) Fifteen pounds of raw materials are needed to complete one unit of product. The company requires an ending inventory of raw materials on hand at the end of each quarter equal to 10% of the following quarters production needs of raw materials. This requirement was met on December 31,20x3 in that the company had 21,000 pounds of raw materials to start the new year.

5) The raw material costs Br. 0.20 per pound. Raw materials purchased are paid for in the following pattern: 50% paid in the quarter the purchases are made, and the remainder is paid in the following quarter. On January 1, 20x4, the companys balance sheet showed Br. 25,800 in accounts payable for raw material purchases, all of which be paid for in the first quarter of the year.

6) Each unit of Greats product requires 0.8 hours of labor time. Estimated direct labor cost per hour is Br. 7.50.

7) Variable overhead is allocated to production using labor hours as the allocation base as follows:

Indirect materials	Br. 0.40
Indirect labor	Br. 0.75
Fringe benefits	Br. 0.25
Payroll taxes	Br. 0.10
Utilities	Br. 0.15
Maintenance	Br. 0.35
Total	**Br. 2.00**

Fixed overhead for each quarter was budgeted at Br. 60,000. Of the fixed overhead amount, Br. 15,000 of each quarter is depreciation. Overhead expenses are paid as incurred.

8) The companys quarterly budgeted fixed selling and administrative expense are as follows:

Fixed Selling & adm. Expense		20x4 Quarters			
	1	2	3	4	Total
Advertising	Br. 20,000	Br. 20,000	Br. 20,000	Br. 20,000	Br. 80,000

Executive salaries	Br. 55,000	Br. 55,000	Br. 55,000	Br. 55,000	Br. 220,000
Insurance	-	Br. 1,900	Br. 37,750	-	Br. 39,650
Property taxes	-	-	-	Br. 18,150	Br. 18,150
Depreciation	Br. 10,000	Br. 10,000	Br. 10,000	Br. 10,000	Br. 40,000
Total	**Br. 85,000**	**Br. 86,900**	**Br. 122,750**	**Br. 103,150**	**Br. 397,800**

9) The only variable selling and administrative expense is sales commission and budgeted at Br. 1.80 per unit of the budgeted sales. All selling and administrative expenses are paid during the quarter, in cash, with exception of depreciation.

10) New equipment purchases will be made during each quarter of the budget year for Br. 50,000, Br. 40,000 and Br. 20,000 each for the last two quarters in cash, respectively.

11) The company declares and pays dividends of Br. 8,000 cash each quarter.

12) The companys balance sheet as of December 31, 20x3 is presented below:

Great Company
Budgeted Income Statement
For the year ended December 31, 20x4

Assets		
Current Assets:		
Cash	42,500	
Accounts Receivable	90,000	
Raw materials inventory (21,000 pounds)	4,200	
Finished Goods inventory (2,000 units)	26,000	
Total current assets		**162,700**
Plant and Equipment:		
Land	80,000	
Building and Equipment	700,000	
Accumulated dep.	(292,000)	
Plant and Equipment, net		**488,000**
Total Assets		**650,700**
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable (Raw Materials		25,800
Stockholders Equity:		
Common stock, no par	175,000	
Retained earnings	449,900	
Total Stockholders Equity		**624,900**
Total liabilities & Stockholders equity		**650,700**

13) The company can borrow money from bank at 10% annual interest. All borrowings and all payments are in multiple of Br. 1,000.

14) The company requires a minimum cash balance of Br. 40,000 at the end of each quarter. Interest is computed and paid on the principal being repaid only at the time of repayment of principal. The company wishes to use any excess cash to pay loans off as rapidly as possible.

Instruction:

Prepare a master budget for the four quarter period ending December 31, including the following budget and schedules;

1. Operating budget of the company
    - **a.** A sales budget by quarter and in total.
    - **b.** A schedule of budgeted cash collections by quarter and in total.
    - **c.** A production budget
    - **d.** A direct material purchase budget.
    - **e.** A schedule of budgeted cash payments for purchases by quarter and in total.
    - **f.** A direct labor budget.
    - **g.** A manufacturing overhead budget.
    - **h.** Ending finished goods inventory budget.
    - **i.** A selling and administrative budget
    - **j.** A budgeted income statement for the four quarter ending December 31, 20x4.
2. Financial budget of the company
    - **a.** A cash budget by quarter and in total.
    - **b.** A budgeted balance sheet as of December 31, 20x4.

Solution:

1. A sales budget by quarter and in total.

	Quarter				
	1	**2**	**3**	**4**	**Total**
Expected sales in units	10,000	30,000	40,000	20,000	100,000
Selling price per unit	x 20	x 20	x 20	x 20	x 20
Total sales	**200,000**	**600,000**	**800,000**	**400,000**	**2,000,000**

2. A schedule of expected cash collections.

	Quarter				
	1	**2**	**3**	**4**	**Total**
30% of the prev. Q sales	90,000	60,000	180,000	240,000	570,000
70% of the curr. Q sales	140,000	420,000	560,000	280,000	1,400,000
Total sales	**230,000**	**480,000**	**740,000**	**520,000**	**1,970,000**

3. A production budget

	Quarter				
	1	**2**	**3**	**4**	**Total**
Expected sales in units	10,000	30,000	40,000	20,000	100,000
Add: Desired end. Inv.	6,000	8,000	4,000	3,000	3,000
Total needs	**16,000**	**38,000**	**44,000**	**23,000**	**103,000**
Less: Beg. Inv. Of FG	2,000	6,000	8,000	4,000	2,000
Units to be produced	**14,000**	**32,000**	**36,000**	**19,000**	**101,000**

4. A direct material purchase budget.

	Quarter				
	1	**2**	**3**	**4**	**Total**
Units to be produced	14,000	32,000	36,000	19,000	101,000
RM needed per unit(pounds)	x15	x15	x15	x15	x15
Production needs (pounds)	**210,000**	**480,000**	**540,000**	**285,000**	**1,515,000**
Add: desired end inv. RM	48,000	54,000	28,500	22,500	22,500
Total needs	**258,000**	**534,000**	**568,500**	**307,500**	**1,537,500**
Less: Beg. Inv. Of RM	21,000	48,000	54,000	28,500	21,000
RM to be purchased (pounds)	**237,000**	**486,000**	**514,500**	**279,000**	**1,516,500**

Raw Materials to be purchased (in birr)

	Quarter				
	1	**2**	**3**	**4**	**Total**
RM to be purchased	237,000	486,000	514,500	279,000	1,516,500
RM costs per pound	x 0.20	x 0.20	x 0.20	x 0.20	x 0.20
Total cost RM to be pur.	**Br. 47,400**	**Br. 97,200**	**Br.102,900**	**Br. 55,800**	**Br. 303,300**

5. A schedule of expected cash disbursements for RMl.

	Quarter

	1	2	3	4	Total
50% of the prev. Q purch.	25,800	23,700	48,600	51,450	149,550
50% of the curr. Q purch.	23,700	48,600	51,450	27,900	151,650
Total cash disbursement	**49,500**	**72,300**	**101,050**	**79,350**	**301,200**

6. A direct labor budget.

	Quarter				
	1	**2**	**3**	**4**	**Total**
Units to be produced	14,000	32,000	36,000	19,000	101,000
DL hour per unit	x0.8	x0.8	x0.8	x0.8	x0.8
Total DL hour needed	**11,200**	**25,600**	**28,800**	**15,200**	**80,800**
DL cost per hour	x Br. 7.50	x Br. 7.50	x Br. 7.50	x Br. 7.50	x Br. 7.50
Total DL cost	**Br. 84,000**	**Br.192,000**	**Br.216,000**	**Br.114,000**	**Br. 606,000**

7. A manufacturing overhead budget.

	Quarter				
	1	**2**	**3**	**4**	**Total**
Total DL hour needed	11,200	25,600	28,800	15,200	80,800
Var. MOH rate	x2	x2	x2	x2	x2
Variable MOH	**22,400**	**51,200**	**57,600**	**30,400**	**161,600**
Fixed MOH	60,600	60,600	60,600	60,600	242,400
Total MOH	**83,000**	**111,800**	**118,200**	**91,000**	**404,000**
Less: Depreciation	15,000	15,000	15,000	15,000	60,000
Cash disbur. For MOH	**68,000**	**96,800**	**103,200**	**76,000**	**344,000**
Total MOH					**404,000**
Budgeted DL hour					**80,800**
Predetermined Overhead rate for the year					**Br. 5.00**

8. Ending finished goods inventory budget.

Production cost per unit			
	Quantity (unit)	**Cost**	**Total**
Direct Material	15 pounds	Br. 0.20 per pound	Br. 3
Direct Labor	0.8 hours	Br. 7.50 per hour	Br. 6
MOH	0.8 hours	Br. 5.00 per hour	Br. 4
Unit Product Cost			**13**
Budgeted finished goods inventory			
Desired Ending finished goods inventory in units			3,000
Unit product cost			Br. 13
Ending finished goods inventory in birr			**Br. 39,000**

9. A selling and administrative expense budget

	Quarter				
	1	**2**	**3**	**4**	**Total**
Expected sales in units	10,000	30,000	40,000	20,000	100,000

Var. sell exp. per unit	x 1.80	x 1.80	x 1.80	x 1.80	x 1.80
Total var. sell expense	**18,000**	**54,000**	**72,000**	**36,000**	**180,000**
Fixed sell & adm expense					
Advertising	20,000	20,000	20,000	20,000	80,000
Executive salaries	55,000	55,000	55,000	55,000	220,000
Insurance	-	1,900	37,750	-	39,650
Property taxes	-	-	-	18,150	18,150
Depreciation	10000	10,000	10,000	10,000	40,000
Total bud. Sell & adm. expense	**103,000**	**140,900**	**194,750**	**139,150**	**577,800**
Disbursement for selling and administrative expenses					
Total bud. Sell & adm. expense	103,000	140,900	194,750	139,150	577,800
Less: depreciation	10,000	10,000	10,000	10,000	40,000
Total cash disbursements	**93,000**	**130,900**	**184,750**	**129,150**	**537,800**

10. A budgeted income statement as of December 31, 20x4.

Great Company
Budgeted Income Statement
For the year ended December 31, 20x4

Sales (100,000 units @ Br. 20)	Br. 2,000,000
Cost of goods sold (100,000 units @ Br. 13)	1,300,000
Gross margin	**700,000**
Selling and Admnistrative expenses	577,800
Operating income	**122,200**
Interest expense	14,000
Net income	**108,200**

11. A cash budget by quarter and in total.

Great Company
Budgeted Income Statement
For the year ended December 31, 20x4

	Quarter				
	1	**2**	**3**	**4**	**Total**
Cash balance, beginning	42,500	40,000	40,000	40,500	42,500
Add receipts:					
Collection from customers	230,000	480,000	740,000	520,000	1,970,000
Total cash available before financing	**272,500**	**520,000**	**780,000**	**560,500**	**2,012,500**
Less: Disbursements for					
Direct materials	49,500	72,300	100,050	79,350	301,200
Direct labor	84,000	192,000	216,000	114,000	606,000
MOH	68,000	96,800	103,200	76,000	344,000
Selling & administrative	93,000	130,900	184,750	129,150	537,800
Equipment purchases	50,000	40,000	20,000	20,000	130,000
Dividends	8,000	8,000	8,000	8,000	32,000
Total disbursements	**352,500**	**540,000**	**632,000**	**426,500**	**1,951,000**

Minimum cash balance	40,000	40,000	40,000	40,000	40,000
Total need	**392,500**	**580,000**	**672,000**	**466,500**	**1,991,000**
Excess(deficiency) of cash available over total need	**(120,000)**	**(60,000)**	**108,000**	**94,000**	**21,500**
Financing					
Borrowing (at beginning)	120,000	60,000	-	-	180,000
Repayments (at ending)	-	-	(100,000)	(80,000)	(180,000)
Interest (@10% annum)	-	-	(7,500)	(6,500)	(14,000)
Total financing	**120,000**	**60,000**	**(107,500)**	**(86,500)**	**(14,000)**
Cash balance, ending	**40,000**	**40,000**	**40,500**	**47,500**	**47,500**

12. A budgeted balance sheet as of December 31, 20x4.

Great Company
Budgeted Income Statement
For the year ended December 31, 20x4

Assets		
Current Assets:		
Cash	47,500	
Accounts Receivable	120,000	
Raw materials inventory (21,000 pounds)	4,500	
Finished Goods inventory (2,000 units)	39,000	
Total current assets		**211,000**
Plant and Equipment:		
Land	80,000	
Building and Equipment	830,000	
Accumulated dep.	(392,000)	
Plant and Equipment, net		**518,000**
Total Assets		**729,000**
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable (Raw Materials		27,900
Stockholders Equity:		
Common stock, no par	175,000	
Retained earnings	526,100	
Total Stockholders Equity		**701,100**
Total liabilities & Stockholders equity		**729,000**