Chapter Three

Information for Budgeting, Planning and Control Purposes

- ***a budget:-*** is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specific period of time.
- ***Budgeting:-***The act of preparing a budget
- ***Budgetary Control:-*** The use of budgets to control a firm's activities .

- ***Budget*** *deals with a* ***specific entity****,* ***covers*** *a* ***specific future time period*** *and is* ***expressed in***

- ***Budget entity*** **-** A specific budget must apply to a clearly defined accounting entity. For budgeting purpose the entity may consist of a small part of a business, a single activity, or a specific project.
- ***Future time period*** –Many financial figures are meaningless unless they are couched in some time references.
  - In planning for profit, managers must consider two time horizons: the short term and the long term.

- ***Short-term planning*** is the process of deciding what objectives to pursue during a short, near-future period, usually one year, and what to do to achieve those objectives. The typical short-term budget covers one year and is broken down into monthly or quarterly units.
- Short-term planning is concerned with operating details for the next accounting period.
- For example, short-term planning in the automotive industry would be concerned with which and how many of the current year's models to manufacture.
- Another method frequently used to prepare a short-term budget is the ***continuous budget***. This kind of budget starts with an annual budget broken down into 12 monthly units. As each month arrives, it is dropped from the plan and replaced by a new month so that at any given time, the next 12

- ***Long-term planning***, also known as ***strategic planning***, is the process of setting long-term goals and determining the means to attain them.
- long-term planning addresses broad issues, such as new product development, plant and equipment replacement, and other matters that require years of advance planning
- long- range planning would focus on new model development and major changes, as well as equipment replacements and modifications.
- The time frame for long-range planning may extend as far as 20 years in the future, but its usual range is from 2 to 10 years.
- An important part of long-term planning is the preparation of ***the capital budget***, which details plans for the acquisition and replacement of major portions of property, plant, and equipment.

Characteristics of Budget

- It is a primary for planning & controlling device.
- It is prepared in monetary terms.
- It is prepared for a definite period of time.
- It shows planned income & expenditures.
- It is used to implement policy of management.

PRINCIPAL ADVANTAGES OF BUDGETING

- Companies realize ***many benefits*** from a budgeting program. Among these benefits are the following:

a) Requires periodic planning.

b) Fosters coordination, cooperation, and communication.

c) Provides a framework for performance evaluation.

d) Means of allocating resources.

e) Satisfies legal and contractual requirements.

f) Created an awareness of business costs.

- ***Periodic Planning (Formalization of Planning)***:- budgets forces managers to think a head to anticipate and prepare for the changing conditions. The budgeting process makes planning an explicit management responsibility.
- ***Coordination, Cooperation and Communication*** **–**Planning by individual managers does not ensure an optimum plan for the entire organization. Therefore, any organization to be effective, each manager throughout the organization must be aware of the plans made by other managers.
- ***Performance Evaluation or Framework for Judging Performance*** **–**Budgets are estimates of future events, and as such they serve as estimates of acceptable performance. *Comparing actual result*

- ***Means of Allocating Resources –*** organizations resources are limited, and budgets provide one means of allocating resources among competing uses.
- ***Legal and Contractual Requirements –***Some organizations are required to budget because of legal requirements. Others commit themselves to budgeting requirement when signing loan agreements or other operating agreements. For example, a bank may require a firm to submit an annual operating budget and monthly cash budget throughout the life of a bank loan. Local police department, for example, would be out of funds if the department decided not to submit a budget this year.
- ***Cost Awareness –***Accountants and financial managers are concerned daily about the cost implications of decisions and activities, but many other managers are not. Production managers focus on input, marketing manager's focuses on sales, and so forth. It is easy for people to overlook costs and cost-benefit relationships. *At budgeting*

Points on Budgeting

- Five general principles of budgeting
  - *Top-management support,*
  - *participation in goal setting,*
  - *timely communication of results,*
  - *flexibility in design, and*
  - *follow-up*.

Budgeting Strategy

- is the manner in which a company approaches the budgeting process
  - who is involved in the budgeting process and how the budget numbers are derived.
- **Mandated Budgeting**
  - top-down budgeting because top management develops the budget and passes them down the organizational hierarchy to various divisions and/or departments without input from lower levels of management and employees.

- **Participative budgeting**
  - allows individuals who are affected by the budget to have input into the budgeting process
  - bottom-up budgeting

Techniques of Budgeting

- Different organizations prepare budget using different techniques that may be grouped as follows:

1. Incremental budgeting: is a budget set based on past year's actual performance.

In this technique a budget for the coming year is simply this year **budgeted or actual results plus or minus** some amount for expected change on planned operation or change in the market price.

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2. Zero based budgeting: In a dynamic business it often makes sense to **'start a fresh'** when developing a budget, rather than basing ideas too much on past performance.

In this technique each budget is therefore constructed without much reference to previous budgets.

Preparing a budget a fresh is usually required in most business organizations, where the business environment is **volatile** that require continues effort of incorporating changes in budget thinking.

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3. Continuous/Perpetual/Rolling Budget: is budget that covers a 12-month period but which is constantly adding a new month on the end as the current month's completed.

- It is a common form of master budget.
- *It makes the budgeting an ongoing process rather than a periodic process.*

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4. **Strategic budgeting:** This involves identifying ***new, emerging opportunities, and then building plans to take full advantage of them***. This is closely related to zero based budgeting and helps to concentrate on gaining competitive advantage.
5. **Activity based budgeting**: This examines individual activities and assesses the strength of their contribution to company success. They can then be ranked and ***prioritized,*** and be assigned appropriate budgets.

TYPES OF BUDGET

- Budgets are classified in different ways:

A. Based on capacity

i) Fixed budget –is a budget that remains unchanged with level of activity.

ii) Flexible budget –it is the budget that will fluctuate with the level of output.

B. Based on time

iii) Long-rang budget –a budget that may cover long periods.

iv) Short-rang budget –a budget that covers less than one year.

C. Based on coverage

i) Functional budget –budgets related to the various functions of a business.

⇨ **Functional budget includes:**

a) Physical budget –budgets of quantity of sales & productions.

b) Profit budget –budgets that ascertains the profit; like sales budget, profit & sales budget, etc.

c) Cost budget –these provide information on costs like manufacturing cost, selling & administration costs etc.

d) Financial budgets –these provide information

ii) Master budget – is a consolidated summary of the various operation & financial budgets.

Or

- It is a set of budgets prepared collectively for all activities of a company.

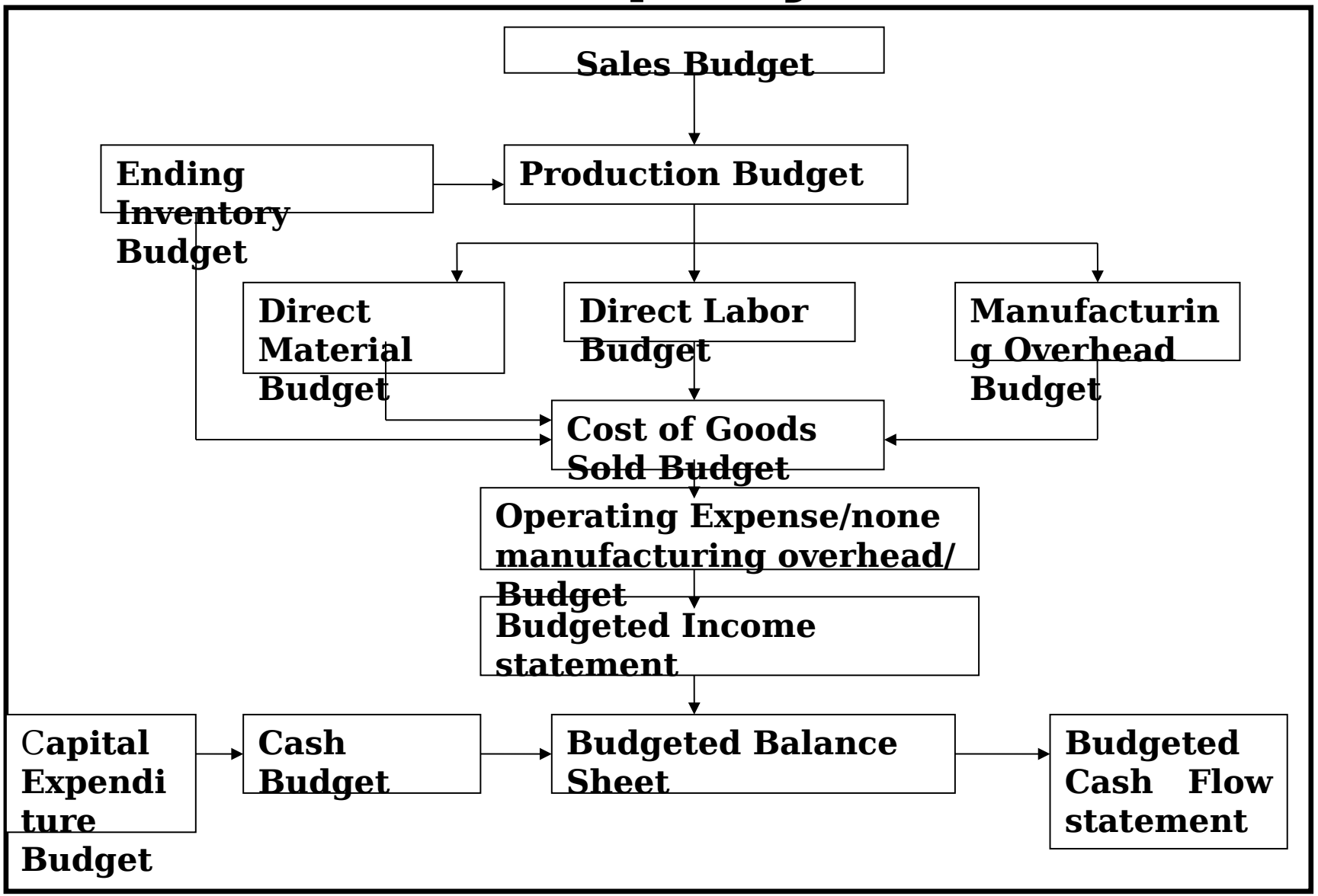
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- Master budget is a consolidated summary of the various operational and financial budgets
- Operating decision centers on the acquisition and use of scarce resources whereas financial decisions centers on how to get the funds to acquire resources
- comprehensive, organization-wide set of budgets.

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- The two main components of the master budget are:
  - the operating budget
    - The operating budget is the budgeted income statement and its supporting budget schedules
    - sales budget is prepared first
  - the financial budget.
    - The financial budget consists of the capital expenditures budget, cash budget, budgeted balance sheet, and budgeted statement of cash flows.

Master Budget-manufacturing company



Basic Operating Budget Steps

1. Prepare the revenues budget.
2. Prepare the production budget (in units).
3. Prepare the direct materials usage budget and direct materials purchases budget.
4. Prepare the direct manufacturing labor budget.

Basic Operating Budget Steps

5. Prepare the manufacturing overhead costs budget.
6. Prepare the ending inventories budget.
7. Prepare the cost of goods sold budget.
8. Prepare the operating expense (period cost) budget.
9. Prepare the budgeted income statement.

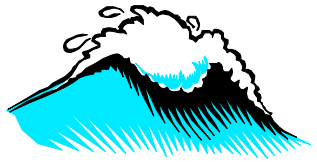
Basic Financial Budget Steps

Based on the operating budgets:

1. Prepare the capital expenditures budget.
2. Prepare the cash budget.
3. Prepare the budgeted balance sheet.
4. Prepare the budgeted statement of cash flows.

Preparation of Master Budget (Manufacturing Company)

Sales Budget



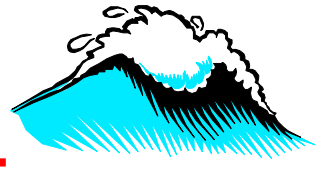
- Great Company manufactures and sells a product whose peak sales occur in the third quarter. Management is now preparing detailed budgets for 2014- the coming year and has assembled the following information to assist in the budget preparation:

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

Year 2014	Budgeted sales in units	Year 2015	Budgeted sales in units
Quarters 1 Quarters 2 Quarters 3 Quarters 4	10, 000 30,000 40,000 20,000	Quarters 1 Quarters 2	15,000 15,000

Sales Budget

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

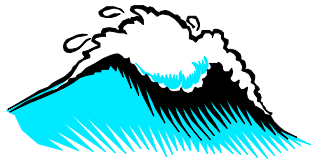


Cash Receipts Budget

- Sales are collected in the following pattern: 70% of sales are collected in the quarter in which the sales are made and the remaining 30% are collected in the following quarter. On January1, 2014, the company's balance sheet showed Br.90, 000 in account receivable, all of which will be collected in the first quarter of the year.

Cash Receipts Budget

	Quarter				
	1	2	3	4	Total
30% of the previous quarter sales	Br. 90, 000	Br.60, 000	Br.180, 000	Br.240, 000	Br.570, 000
70% of the current quarter sales	140, 000	420, 000	560, 000	280, 000	1, 400, 000
Total collections	Br.230. 000	Br.480. 000	Br.740. 000	Br. 520. 000	Br.1. 970. 000



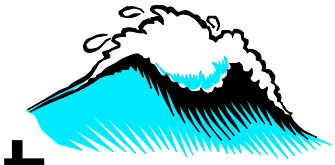
Production Budget

- The company maintains an ending inventory of finished units equal to 20% of the next quarter's sales. on December 31, 2013, the company had 2, 000 units on hand to start the New Year.

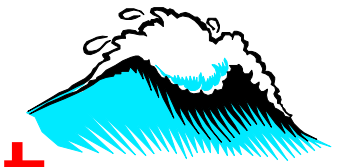
Production Budget

	Quarter				Total
Expected sales(units)	10, 000	30, 000	40, 000	20, 000	100, 000
Add: Desired Ending Inventory	6, 000	8, 000	4, 000	3, 000	3, 000
Total needs	16, 000	38, 000	44, 000	23, 000	103, 000
Lees: Beginning Inventory	2, 000	6, 000	8, 000	4, 000	2, 000
Units to be produced	14, 000	32,000	36, 000	19, 000	101, 000

Direct-Material Budget



- 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 quarter's production needs of raw materials. On December 31, 2013, the company had 21, 000 pounds of raw materials to start the New Year.



Direct-Material Budget

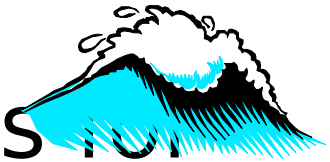
	Quarter				Total
	1	2	3	4	
Production needs(pounds)	210, 000	480, 000	540, 000	285, 000	1, 515, 000
Add: Desired ending inventory	48, 000	54, 000	28, 500	22, 500	22, 500
Total needs	258, 000	534, 000	568, 500	307, 500	1, 537, 500
Less: Beginning inventory	21, 000	48, 000	54, 000	28, 500	21, 000
Raw materials to be purchased(pounds)	237, 000	486, 000	514, 500	279, 000	1, 516,500

Direct-Material Budget

- The raw material costs Br.0.20 per pound.

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

Schedule of Cash Disbursements for Material Purchases



Raw material purchases 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 1,2014, the company's 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.

Schedule of Cash Disbursements for Material Purchases

	Quarter				Total
	1	2	3	4	
50% of the previous quarter	Br. 25, 800	Br.23, 700	Br.48, 600	Br.51, 450	Br.149, 550
50% of the current quarter	23, 700	48, 600	51, 450	27, 900	151, 650
Total cash disbursement	Br.49, 500	Br.72, 300	Br.101, 050	Br.79, 350	Br.301, 200

Direct-Labor Cost Budget

- Each unit of Great's product requires 0.8 hour of labor time. Estimated direct labor cost per hour is Br.7.50.

	Quarter				Total
	1	2	3	4	
Direct labor time needed	11, 200	25, 600	28, 800	15, 200	80, 800
Direct labor cost per hour	x Br.7.50	x Br.7.50	x Br.7.50	x Br.7.50	x Br.7.50
Total direct labor cost	Br.84, 000	Br.192, 000	Br.216, 000	Br.114, 000	Br.606, 000

Manufacturing Overhead Budget

- Variable overhead is allocated to production using labor hours as the allocation base as follows:
  - Indirect materials Br.0.40
  - Indirect labor 0.75
  - Fringe benefits 0.25
  - Payroll taxes 0.10
  - Utilities 0.15
  - Maintenance 0.35
- Fixed overhead for each quarter was budgeted at Br. 60, 600. Of the fixed overhead amount, Br. 15, 000 each quarter is depreciation. Overhead expenses are paid as incurred

Manufacturing Overhead Budget

	Quarter				Total
	1	2	3	4	
Variable overhead	Br.22, 400	Br.51, 200	Br.57, 600	Br.30, 400	Br.161,600
Fixed overhead	60, 600	60, 600	60, 600	60, 600	242,400
Total MOH	Br.83, 000	Br.111, 800	Br.118, 200	Br.91, 000	Br.404,000
Less: Depreciation	15, 000	15, 000	15, 000	15, 000	60, 000
Cash disbursements for MOH	Br.68, 000	Br.96, 800	Br.103, 200	Br.76, 000	Br.344, 000

budgeted ending inventory

Manufacturing overhead is applied on the basis of direct labor hours

Budgeted Finished Goods Inventory	3, 000
Unit product cost	Br.13
Ending Finished Goods Inventory in birrs	Br.39, 000

Production cost per unit

	Quantity (unit)	Cost	Total
Direct materials	15 pounds	Br.0.20 per pound	Br.3
Direct labor	0.8 hours	7.50 per hour	6
Manufacturing overhead	0.8 hours	5.00 per hour	4
Unit product cost			Br.13

$$\text{MOH rate} = \frac{\text{Total MOH}}{\text{Direct labor hours}} = \frac{404,000}{80,800} = \text{Br.5.00}$$

Selling and Administrative Expense Budget

- The company's quarterly budgeted fixed selling and administrative expenses are as follows:

	2014 Quarters			
	1	2	3	**4**
Advertising	Br.20, 000	Br.20, 000	Br.20, 000	**Br.20, 000**
Executive salaries	55, 000	55, 000	55, 000	**55, 000**
Insurance	-	1, 900	37,750	**-**
Property taxes	-	-	-	**18, 150**
Depreciation	**10, 000**	**10, 000**	**10, 000**	**10, 000**

The only variable selling and administrative expense, sales commission, is 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.

Selling and Administrative Expense Budget

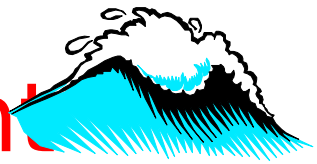
	Quarter				Total
	1	2	3	4	
Variable selling expenses	Br.18, 000	Br.54, 000	Br.72, 000	Br.36, 000	Br.180, 000
Fixed selling & administrative expenses					
Advertising	20, 000	20, 000	20, 000	20, 000	80, 000
Executive salaries	55, 000	55, 000	55, 000	55, 000	220, 000
Insurance	-	1, 900	37, 750	-	39, 650
Property taxes	-	-	-	18,150	18,150
Depreciation	10, 000	10, 000	10, 000	10, 000	40, 000
Total budgeted selling & administrative expenses	Br.103, 000	Br.140, 900	Br.194, 750	Br.139, 150	Br.577, 800

Selling and Administrative Expense Budget

Disbursement for Selling & Administrative Expenses

	Quarter				Total
	1	2	3	4	
Budgeted Selling & Administrative	Br.103, 000	Br.140, 900	Br.194, 750	Br.139, 150	Br.577, 800
Less: Depreciation	10, 000	10, 000	10, 000	10, 000	40, 000
Total Cash Disbursements	Br.93, 000	Br.130, 900	Br.184, 750	Br.129, 150	Br.537, 800

Budgeted Income Statement



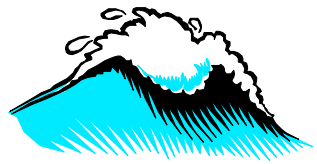
Great Company

Budgeted Income Statement

For the Year Ended December31, 20x4

Sales [100, 000units at Br.20 Schedule 1(a)]	Br.2, 000, 000
Cost of Goods Sold [100, 000 units at Br.13 Schedule1 (h)]	1, 300, 000
Gross Margin	700, 000
Selling & Administrative Expenses [Schedule 1 (i)]	577, 800
Net Operating Income	122, 200
Interest Expense [Schedule 2(a)]	14, 000
Net Income	**Br. 108, 200**

Cash Budget



- New equipment purchases will be made during each quarter of the budget year for Br. 50, 000, Br. 40, 000, & Br.20, 000 each for the last two quarter in cash respectively. The company declares and pays dividends of Br.8, 000 cash each quarter.
- The company can borrow money from its bank at 10% annual interest. All borrowing must be done at the beginning of a quarter, and repayments must be made at the end of a quarter. All borrowings and all repayments are in multiples of Br. 1,000. 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 whishes to use any excess cash to pay loans off as rapidly as possible

Cash Budget

	Quarter				Total
	1	2	3	4	
Cash balance, beginning	Br.42, 500	Br.40, 000	Br.40, 000	Br.40, 500	Br.42, 500
Add : 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
Manufacturing overhead	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
Dividend	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

Cash Budget- Financing and Repayment

Financing:					
Borrowing(at beginning)	120,000	60, 000	-	-	180, 000
Repayments(at ending)	-	-	(100, 000)	(80,000)	(180,000)
Interest(at 10% per annum)	-	-	(7,500)	(6,500)	(14,000)
Total financing	120, 000	60, 000	(107,500)	(86,500)	(14,000)
Cash balance, ending	**Br.40,000**	**Br.40, 000**	**Br.40, 500**	**Br.47, 500**	**Br.47, 500**

Budgeted Balance Sheet

ASSETS		
Current assets:		
Cash	Br. 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	Br.162, 7 00	
Plant and Equipment:		
Land	Br.80, 000	
Building and Equipment	700, 000	
Accumulated Depreciation	(292, 000)	
Plant and Equipment, net		488, 000
Total assets		Br.650, 700
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (raw materials)	Br.25, 800	
Stockholders' equity:		
Common stock, no par	Br.175, 000	
Retained earnings	449, 900	
Total stockholders' equity		624, 900
Total liabilities and stockholders' equity		Br.650, 700

Great Company
Budgeted Balance Sheet
December31, 20x4

ASSETS		
Current assets:		
Cash [Schedule 2(a)]	Br. 47, 500	
Accounts Receivable	120, 000	
Raw Materials Inventory	4, 500	
Finished Goods Inventory	39, 000	
Total current assets		Br.211, 000
Plant and Equipment:		
Land	Br.80, 000	
Building and Equipment	830, 000	
Accumulated Depreciation	(392, 000)	
Plant and Equipment, net		518, 000
Total assets		Br.729, 000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (raw materials)		Br.27, 900
Stockholders' equity:		
Common stock, no par	Br.175, 000	
Retained earnings	526, 100	
Total stockholders' equity		701, 100
Total liabilities and stockholders' equity		Br.729, 000

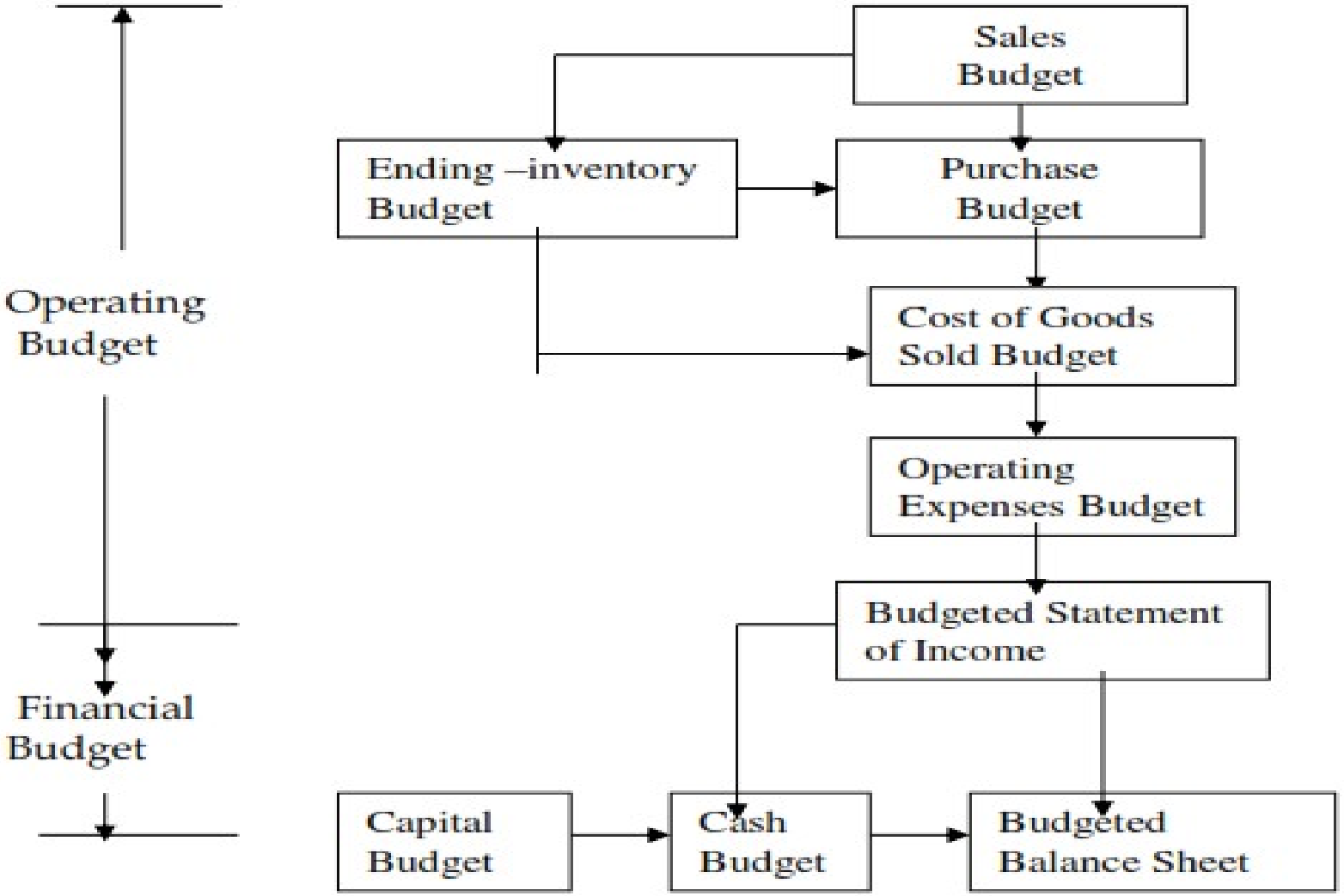
Master Budget -Merchandising Company

The usual master budget for a non-manufacturing company has the following components.

1. Operating budget includes:
   a. Sales budget
   b. Purchases budget
   c. Cost of goods sold budget
   d. Operating expense budget

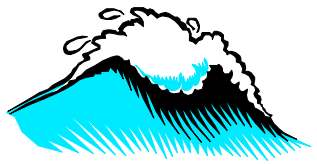
2. Financial budget include:
   a. Capital budget
   b. Cash budget
   c. Budgeted balance sheets
   d. Budgeted statement of cash flows

Figure 3-1 Preparation of Master Budget (Non manufacturing Company)



Preparation of Master Budget (Merchandising Company)

Sales Budget



- Blue Nile Company's prepare a master budget to aid financial and operating decisions. The planning horizon is only three months, January to March. Sales in December (2013) were Br. 40, 000. Monthly sales for the first four months of the next year (2014) are forecasted as follows:
  - January Br. 50, 000
  - February 80, 000
  - March 60, 000
  - April 50, 000

	December*	January	February	March	Jan.-Mar. Total
Cash sales (60%)	Br.24, 000	Br.30, 000	Br.48, 000	Br.36, 000	Br.114, 000
Credit sales (40%)	16,000	20,000	32,000	24,000	76,000
Totals	Br.40,000	Br.50,000	Br.80,000	Br.60,000	Br.190,000

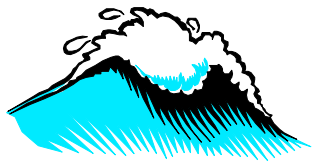
*December sales are included in the schedule (a) because they affect cash collected in January.

Cash Collection Budget

- Normally 60% of sales are on cash and the remainders are credit sales. All credit sales are collected in the month following the sales.

	January	February	March
Cash sales of the month	Br.30, 000	Br.48, 000	Br.36, 000
Credit sales of last month	16, 000	20, 000	32, 000
Total cash collected	Br.46, 000	Br.68, 000	Br.68, 000

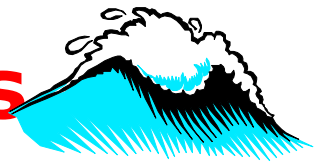
Purchase Budget



- Blue Nile wants to have a basic inventory of Br. 20, 000 plus 80% of the expected cost of goods to be sold in the following month. The cost of merchandise sold averages 70% of sales.

	January	February	March	Jan.-Mar
Required ending inventory	Br.64, 800	Br.53, 600	Br.48, 000	
Cost of gods sold	35, 000	56, 000	42, 000	Br.133, 000
Total needed	Br.99, 800	Br.109, 600	Br.90, 000	
Beginning inventory	48, 000	64, 800	53, 600	
Purchases budget	Br.51. 800	Br.44. 800	Br.36. 400	

Disbursement for purchases



- The purchase terms available to the company are net 30 days. Each month's purchase are paid as follows:
  - 50% during the month of purchase and,
  - 50% during the month following the

	January	February	March
50% of last month's purchase	Br.16, 800	Br.25, 900	Br.22, 400
50% of current month's purchase	25, 900	22, 400	18, 200
Total disbursement for purchase	Br.42, 700	Br.48, 300	Br.40, 600

Operating expense budget

Monthly expenses are:

Wages and commissions……Br. 2, 500 + 15%of sales, paid as incurred.

Rent expense……..Br. 2, 000 paid as incurred.

Insurance expense……..Br.200 expiration per month

Depreciation including truck……Br.500 per month

Miscellaneous expense……5% of sales, paid as incurred.

	January	February	March	Jan.-Mar.
Wages and commissions	Br.10, 000	Br.14, 500	Br.11, 500	Br.36, 000
Rent expense	2, 000	2, 000	2, 000	6, 000
Insurance expense	200	200	200	600
Depreciation expense	500	500	500	1, 500
Miscellaneous expense	2, 500	4, 000	3, 000	9, 500
Total	Br.15, 200	Br.21, 200	Br.17, 200	Br.53, 600

Disbursement for operating expenses budget

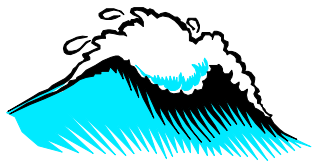
	January	February	March
Wages and commissions	Br.14, 250	Br.14, 500	Br.11, 500
Rent expense	2, 000	2, 000	2, 000
Miscellaneous expense	2, 500	4, 000	3, 000
Total	Br.18, 750	Br.20, 500	Br.16, 500

Budgeted Income Statement

Blue Nile Company
Budget Income Statement
For the Quarter Ended, March 31, 20x4

Sales (**schedule 1(a)**)		Br.190, 000
Cost of goods sold (**schedule 1(c)**)		133, 000
Gross profit		57, 000
Operating expenses		
Wages and commissions	Br.36, 000	
Rent expense	6, 000	
Insurance expense	1, 500	
Depreciation expense	600	
Miscellaneous expense	9, 500	53, 600
Operating income		3, 400
Interest expense*		885
Net income		Br. 2, 515

Cash Budget



- In January, a used truck will be purchased for Br. 3, 000 cash. The company wants a minimum cash balance of Br. 10, 000 at the end of each month. Blue Nile can borrow cash or repay loans in multiples of Br. 1, 000. Management plans to borrow cash more than necessary and to repay as promptly as possible. Assume that the borrowing takes place at the beginning, and repayment at the end of the months. Interest is paid when the

Cash budget including receipts& payments

	January	February	March
Beginning balance	Br.10, 000	Br.10, 550	Br.10, 750
Collections (**Schedule1 (b)**)	46, 000	68, 000	68, 000
Cash available for the use (**x**)	Br.56, 000	Br.78, 550	Br.78, 750
Cash disbursements for:			
Purchases (**Schedule 1(d)**)	42, 700	48, 300	40, 600
Operating expenses (**Schedule1 (f)**)	18, 750	20, 500	16, 500
Truck purchases	3, 000	-	-
Total disbursement (**y**)	Br.64, 450	Br.68, 800	Br.57, 100
Minimum cash balance required	10, 000	10, 000	10, 000
Total cash needed	Br.74, 450	Br.78, 800	Br.67, 100
Cash excess (deficiency)	Br.(18, 450)	Br.(250)	Br.11, 650

Cash Budget- Financing and Repayment

Effects of financing			
Borrowing	19, 000	1, 000	-
Payment of the principal	-	-	(11, 000)
Payment of interest	-	-	(495)
Net effect of financing (z)	Br.19, 000	Br.1, 000	Br.(11, 495)
End cash balance (x+z-y)	Br.10, 550	Br.10, 750	Br.10, 155

***Interest expense computation**

Paid interest = 11, 000×0.18×3/12=		495
Accrued amount:		
On the first batch borrowing:		
8, 000×0.18×3/12=	360	
On the second batch borrowing:		
1, 000×0.18×2/12=	30	
Total interest expense incurred	**Br.885**	

Budgeted Balance Sheet

Blue Nile Company
Balance Sheet
December 31, 20x3

ASSETS

Current assets:		
Cash	Br. 10, 000	
Account receivable	16,000	
Merchandise inventory	48, 000	
Unexpired insurance	1, 800	
Br.75, 800		
Plant assets:		
Equipment, fixture and other	Br.37, 000	
Accumulated depreciation	12, 800	Br.24, 200
Total assets		**Br.100.000**
LIABILITIES AND OWNERS' EQUITY		
Liabilities:		
Accounts payable	Br.16, 800	
Accrued wages and commissions payable	4, 250	
Br.21, 050		
Capital:		
Owners' equity	78, 950	
Total liabilities and owners' equity	**Br.100. 000**	

Budgeted Balance Sheet

Blue Nile Company
Budgeted Balance Sheet
March 31, 20x4

ASSETS		
Current assets		
Cash	Br. 10, 155	
Accounts receivable	24, 000	
Merchandise inventory	48, 000	
Unexpired insurance	1, 200	
Br. 83, 355		
Plant assets		
Equipment, Fixture and others	40, 000	
Accumulated depreciation	14, 300	25, 700
Total assets		**Br. 109, 055**
LIABILITIES AND OWNER'S EQUITY		
Liabilities		
Accounts payable	Br.18, 200	
Loan payable	9, 000	
Interest payable	390	
Total liabilities	Br.27, 590	
Capital		
Beginning owners' equity	Br.78, 950	
Net income	2, 515	
Ending capital balance	81, 465	
Total equities		**Br.109, 055**