



51A Middle Street Newburyport MA 01950

Phone: 800-588-7039 Fax: 877-902-4284

contact@bhfe.com

www.bhfe.com

Course Information

Course Title: Budgeting: A Comprehensive Guide #3622

Number of continuing education credit hours recommended for this course:

CPA: 14 (All states)

In accordance with the standards of the National Registry of CPE Sponsors, CPE credits have been granted based on a 50-minute hour.

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

Program Delivery Method: NASBA QAS Self-Study (interactive)

Subject Codes/Field of Study: Finance

Course Description:

Level: Overview

Prerequisites: None

Advance Preparation: None

Budgeting: The Comprehensive Guide shows how to create a budget, whether there are variations on the traditional budgeting concept that may work better, and how to operate without any budget at all. The discussion also covers capital budgeting, flexible budgeting, zero-base budgeting, and all of the procedures, controls, and reports needed for a functioning budget system.

Course Content

Publication/Revision date: 12/13/2014.

Course book: *Budgeting: A Comprehensive Guide* by Steven M. Bragg, CPA.

Final exam (online): Seventy questions (multiple-choice).

Instructions for taking this course

In order to receive CPE credit for this course, you must complete the course within one year of the date of purchase. This includes achieving a passing grade of at least 70% on the final exam. The exam may be retaken if not passed on first attempt (no charge).

Complete the course by following the learning assignments and objectives listed below and studying the review questions at the end of each chapter. Once you have completed each learning assignment and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Final Exam Online

- Login to your account online at www.bhfe.com.
- Go to "My Account" and view your courses.
- Select "Take Exam" for this course and follow instructions.

Have a question? Call us at 800-588-7039 or email us at contact@bhfe.com.

Learning Assignment & Objectives

- Note the advantages and disadvantages of budgeting.
- Identify the components of cost-volume-profit analysis, and how it can be used.
- State the types of budgets that are included in the system of budgets.
- Cite the sources of information for the revenue budget, and note how this budget is used.
- Note how different decisions can impact the amount of finished goods inventory on hand.
- Identify how the production budget is compiled, and the issues to consider when constructing it.
- Note how the direct materials budget is compiled.
- Identify the components of the direct labor budget, and how it is compiled.
- Cite the line items used in the manufacturing overhead budget, and the nature of these costs.
- State the sources of the cost of goods sold budget, and the reasons for changes in the expense.
- Identify the sales and marketing activities that can affect revenue, as well as the methods used to compile and present the sales and marketing budget.
- Note how the research and development budget is derived, as well as how to review the budget for effectiveness.
- Cite the line items usually found in the administration budget.
- Identify the methods used to review capital budgeting proposals.
- Note the uses to which a headcount budget is put, and whether bonuses should be included in the budget.
- State the components of the master budget, and the factors impacting budgeted asset and liability levels.
- Identify the line items used in a nonprofit budget.
- Cite the advantages and disadvantages of flexible budgeting.
- Identify the situations in which costs can vary, and when they are more likely to be fixed.
- State the nature of zero-base budgets and the process for using them, as well as the nature of conditional budgeting.
- Note the role of management in an environment where there is no budget.
- Note the focus of a rolling forecast, and the nature of a continuous budget.
- Identify the procedural steps needed to create a budget, including those steps needed to prevent budget slippage and calculation errors.
- Cite the methods available for improving the efficiency of the budgeting process, and of the budget model.
- State the variances that can be used to compare a budget to actual results.
- Identify the controls that can accompany a budgeting process, and what they are intended to accomplish.

About the Author

Steven Bragg, CPA, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been a two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books:

Accountants' Guidebook	Credit & Collection Guidebook
Accounting Controls Guidebook	Financial Analysis
Accounting for Inventory	Fixed Asset Accounting
Accounting for Investments	GAAP Guidebook
Accounting for Managers	Human Resources Guidebook
Accounting Procedures Guidebook	IFRS Guidebook
Bookkeeping Guidebook	Inventory Management
Budgeting	Investor Relations Guidebook
Business Ratios	Lean Accounting Guidebook
CFO Guidebook	Mergers & Acquisitions
Closing the Books	New Controller Guidebook
Constraint Management	Nonprofit Accounting
Corporate Cash Management	Payroll Management
Cost Accounting Fundamentals	Public Company Accounting
Cost Management Guidebook	Revenue Recognition

Copyright © 2014 by AccountingTools, Inc. All rights reserved.

Published by AccountingTools, Inc., Centennial, Colorado.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to Steven M. Bragg, 6727 E. Fremont Place, Centennial, CO 80112.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

Table of Contents

Chapter 1 - Introduction to Budgeting	1
The Advantages of Budgeting	1
The Disadvantages of Budgeting	2
Capital Budgeting Problems	3
The Command and Control System	4
Chapter 2 - Cost-Volume-Profit Analysis.....	8
Contribution Margin.....	8
Contribution Margin Income Statement	9
Breakeven Point	10
Margin of Safety.....	12
Cost-Volume-Profit Analysis	13
Sales Mix.....	15
Chapter 3 - The System of Budgets.....	18
The System of Budgets.....	18
Operating Decisions Impacting the System of Budgets	22
The Reasons for Budget Iterations	23
The Number of Budget Scenarios	24
Chapter 4 - The Revenue Budget	27
Overview of the Revenue Budget.....	27
The Detailed Revenue Budget.....	28
Responsibility for Revenue Information	30
Sources of Revenue Information	31
The Impact of Pacing on the Revenue Budget	32
The Inherent Variability of the Revenue Budget.....	33
Chapter 5 - The Ending Finished Goods Inventory Budget	36
Ending Inventory Assumptions	36
Impact of Changes in Ending Inventory.....	37
The Ending Finished Goods Inventory Budget	37
Chapter 6 - The Production Budget.....	41
The Production Budget.....	41
Other Production Budget Issues	42
Budgeting for Multiple Products	43
Chapter 7 - The Direct Materials Budget.....	46
The Direct Materials Budget (Roll up Method)	46
The Direct Materials Budget (Historical Method).....	48
The Direct Materials Budget (80/20 Method)	49
Anomalies in the Direct Materials Budget	50
The Role of the Direct Materials Budget.....	51
Chapter 8 - The Direct Labor Budget.....	53
The Direct Labor Budget (Traditional Method)	53
The Direct Labor Budget (Crewing Method).....	55
The Direct Labor Budget for Manufacturing Cells	56
The Cost of Direct Labor.....	56
Anomalies in the Direct Labor Budget.....	56
Chapter 9 - The Manufacturing Overhead Budget	59
The Manufacturing Overhead Budget	59
Overhead Allocation between Periods	60
Additional Issues	61
Chapter 10 - The Cost of Goods Sold Budget.....	64

The Cost of Goods Sold Budget.....	64
Chapter 11 - The Sales and Marketing Budget.....	67
Types and Timing of Sales and Marketing Expenses.....	67
Structure of the Sales and Marketing Budget.....	68
Sources of Sales and Marketing Expense Information.....	70
Analysis of the Sales and Marketing Budget.....	71
Diminishing Returns Analysis.....	72
Sales and Marketing Pacing.....	73
The Impact of Bottlenecks on the Sales and Marketing Budget.....	73
Sales and Marketing Metrics.....	74
Chapter 12 - The Research and Development Budget.....	79
General Funding for Research and Development.....	79
Research and Development Funding Decisions.....	80
Expected Commercial Value.....	80
Project Risk.....	81
Project Selection Issues.....	82
The Project Failure Rate.....	83
Structure of the Research and Development Budget.....	84
Ongoing Project Analysis.....	85
Research and Development Measurements.....	86
Treatment of Cancelled Projects.....	87
Chapter 13 - The Administration Budget.....	89
The Administration Budget.....	89
Cost Variability in the Administration Budget.....	91
Allocation of Administration Expenses.....	91
Service-Based Costing.....	92
Chapter 14 - The Capital Budget.....	94
Overview of Capital Budgeting.....	94
Bottleneck Analysis.....	95
Net Present Value Analysis.....	95
The Payback Method.....	97
Capital Budget Proposal Analysis.....	98
The Outsourcing Decision.....	100
The Capital Budgeting Application Form.....	101
The Post Installation Review.....	103
The Lease versus Buy Decision.....	104
Capital Budgeting with Minimal Cash.....	105
Chapter 15 - The Compensation Budget.....	107
The Compensation Budget.....	107
The Treatment of Hourly Pay and Overtime.....	109
The Benefits Budget.....	110
The Headcount Budget.....	111
The Link between Budgets and Bonus Compensation.....	112
Chapter 16 - The Master Budget.....	115
The Budgeted Income Statement.....	115
Components of the Budgeted Balance Sheet.....	116
The Financing Budget.....	124
The Budgeted Balance Sheet.....	126
Accompanying Documentation.....	126
Chapter 17 - Nonprofit Budgeting.....	129
The Revenue Budget.....	129
The Management and Administration Budget.....	130

The Fundraising Budget	131
Program and Grant Budgets	132
Chapter 18 - Flexible Budgeting	135
The Flexible Budget	135
The Flexible Budget Variance	136
Advantages of Flexible Budgeting	137
Disadvantages of Flexible Budgeting	137
Chapter 19 - Cost Variability	140
Mixed Costs	140
Labor-Based Fixed Costs	141
Costs Based on Purchase Quantities	142
Costs Based on Production Batch Sizing	143
Cost Based on Step Costs	144
Time-Based Costs	144
Experience-Based Costs	145
Incorporating Cost Variability into Reports	146
Chapter 20 - The Zero-Base Budget	150
Incremental Budgeting	150
Overview of Zero-Base Budgeting	151
The Zero-Base Budgeting Process	152
Advantages of Zero-Base Budgeting	158
Problems with Zero-Base Budgeting	159
Conditional Budgeting	159
Chapter 21 - Operating without a Budget	162
Alternatives to the Budget	162
Forecasting without a Budget	163
Capital Budgeting	164
Goal Setting without a Budget	165
Strategy without a Budget	166
Management Guidelines	167
The Role of Senior Management	167
Corporate Staff Roles	169
Board Approvals	169
Compensation without a Budget	169
Controls without a Budget	171
Behavioral Norms	172
Profit Knowledge	172
Information Exchange	172
Hiring, Promotions, and Continuity	173
Customer Ownership	173
Service Center Pricing	173
Accounting Reports	174
Transfer Pricing	175
Investor Relations	175
Implementation of the No-Budget Environment	176
Chapter 22 - The Rolling Forecast	179
The Rolling Forecast Process	179
The Rolling Forecast Format	180
Continuous Budgeting	182
Chapter 23 - Budgeting Procedures	185
Procedure – Formulation of the Budget	185
Procedure – Issue Budget Variance Reports	187
Procedure – Subsequent Account Changes	187

Chapter 24 - Budgeting Efficiencies	190
Budget Model Efficiencies	190
Budgeting Process Efficiencies	194
Participative Budgeting	194
Chapter 25 - Budget Reporting	197
General Reporting Format	197
Revenue Reporting	199
Overview of Cost of Goods Sold Variance Reporting	200
The Purchase Price Variance.....	201
Material Yield Variance	202
Labor Rate Variance.....	203
Labor Efficiency Variance	204
Variable Overhead Spending Variance	205
Variable Overhead Efficiency Variance.....	205
Fixed Overhead Spending Variance.....	206
Problems with Variance Analysis	207
Which Variances to Report	207
How to Report Variances	208
Chapter 26 - Budgeting Controls	211
Budget Creation Controls	211
Budget Integration Controls	212
Appendix - Sample Budget	215
Answers to Chapter Questions	220
Glossary	234
Index	239

Preface

It can be extremely difficult to assemble all of the information needed for a creditable corporate budget in a timely manner, and then continue to refer back to it throughout the budget period. Many companies have become so frustrated with the process that they have either given up budgeting or done the reverse and implemented an oppressive, top-down system of adherence to the budget.

This new edition of *Budgeting: The Comprehensive Guide* addresses all aspects of the budgeting conundrum – how to create a budget, whether there are variations on the concept that may work better, and how to operate without any budget at all. In Chapters 1-17, we inspect all parts of a traditional corporate budget, including such areas as the production budget, inventory budget, and master budget, as well as the unique aspects of nonprofit budgeting. In Chapters 18-20, we discuss flexible budgeting and zero-base budgeting, which are variations on the traditional budgeting model. In Chapters 21-22, we cover the concept of operating without a budget. And finally, we address a variety of budget-related systems, such as procedures, reporting, and controls. An appendix contains a sample budget, showing subsidiary budget schedules rolling up into a master budget. A great many topics are covered in the book, including:

- What are the advantages and disadvantages of budgeting?
- What is the system of budgets?
- What are the sources of information for the revenue budget?
- When should I use the crewing method to compile the direct labor budget?
- When should I use the roll-up method to calculate the direct materials budget?
- How do I derive the correct amount of research and development funding?
- How does bottleneck analysis impact capital budgeting?
- What are the inputs to a budgeted balance sheet?
- How do I create a flexible budget?
- What are the steps involved in creating a zero-base budget?
- What alternative systems are needed to operate without a budget?
- What efficiencies can I impose on the budgeting process?

Budgeting: The Comprehensive Guide is designed for both professional accountants and students, since both can benefit from its detailed descriptions of budgeting systems, reports, and controls. As such, it may earn a place on your book shelf as a reference tool for years to come.

Centennial, Colorado
August 2014