

CHAPTER 14

Motivation, budgets
and
responsibility accounting

Budgeting and the Organization: Responsibility Accounting

- Responsibility Center – a part, segment, or subunit of a organization whose manager is accountable for a specified set of activities
- Responsibility Accounting – a system that measures the plans, budgets, actions and actual results of each Responsibility Center

Types of Responsibility Centers

1. Cost – accountable for costs only
2. Revenue – accountable for revenues only
3. Profit – accountable for revenues & costs
4. Investment – accountable for investments, revenues, and costs

Budget

Master

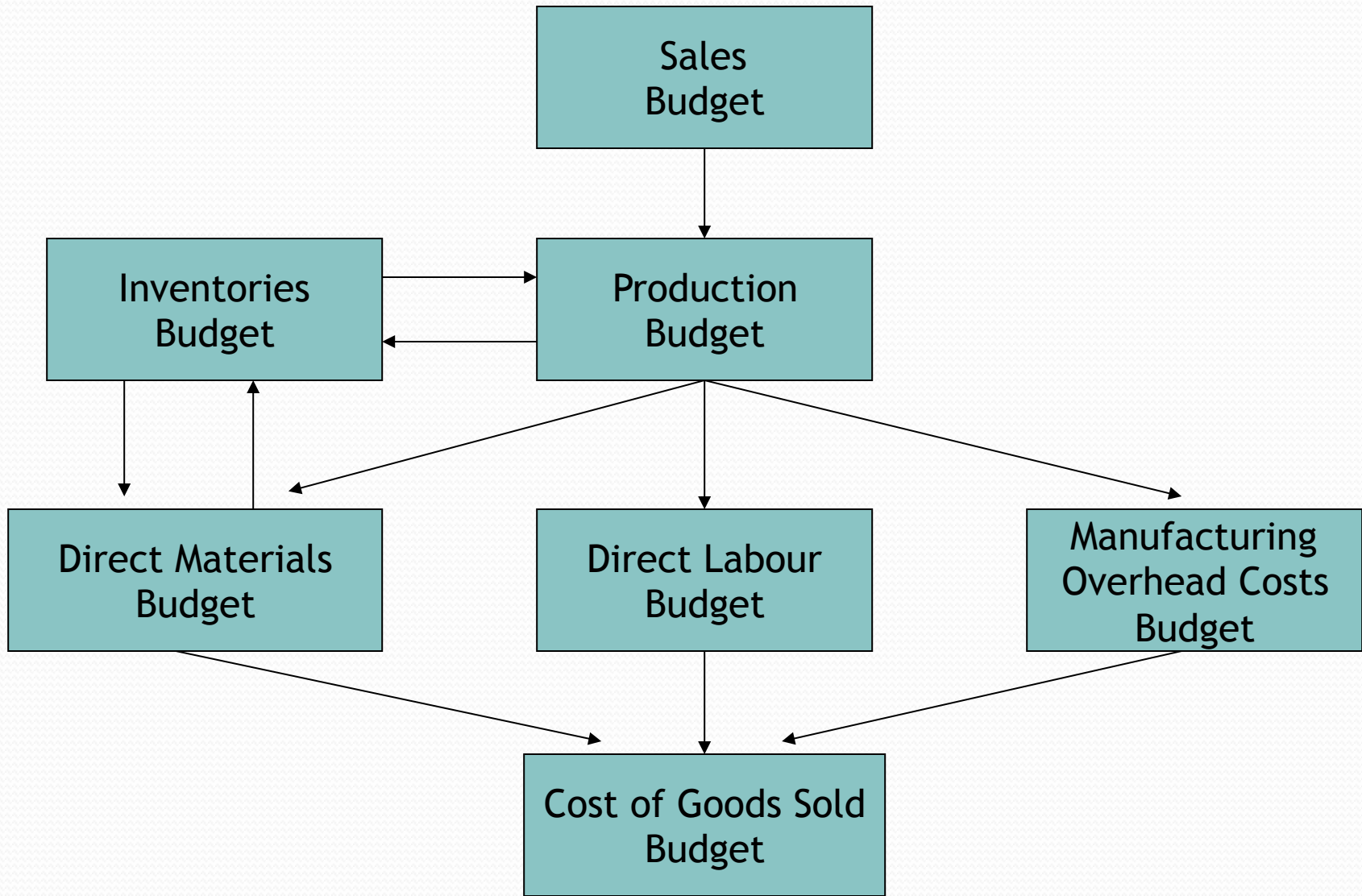
- **Planning tool**
 - Where we are?
 - Where we want to go?
 - How we decided to get there?

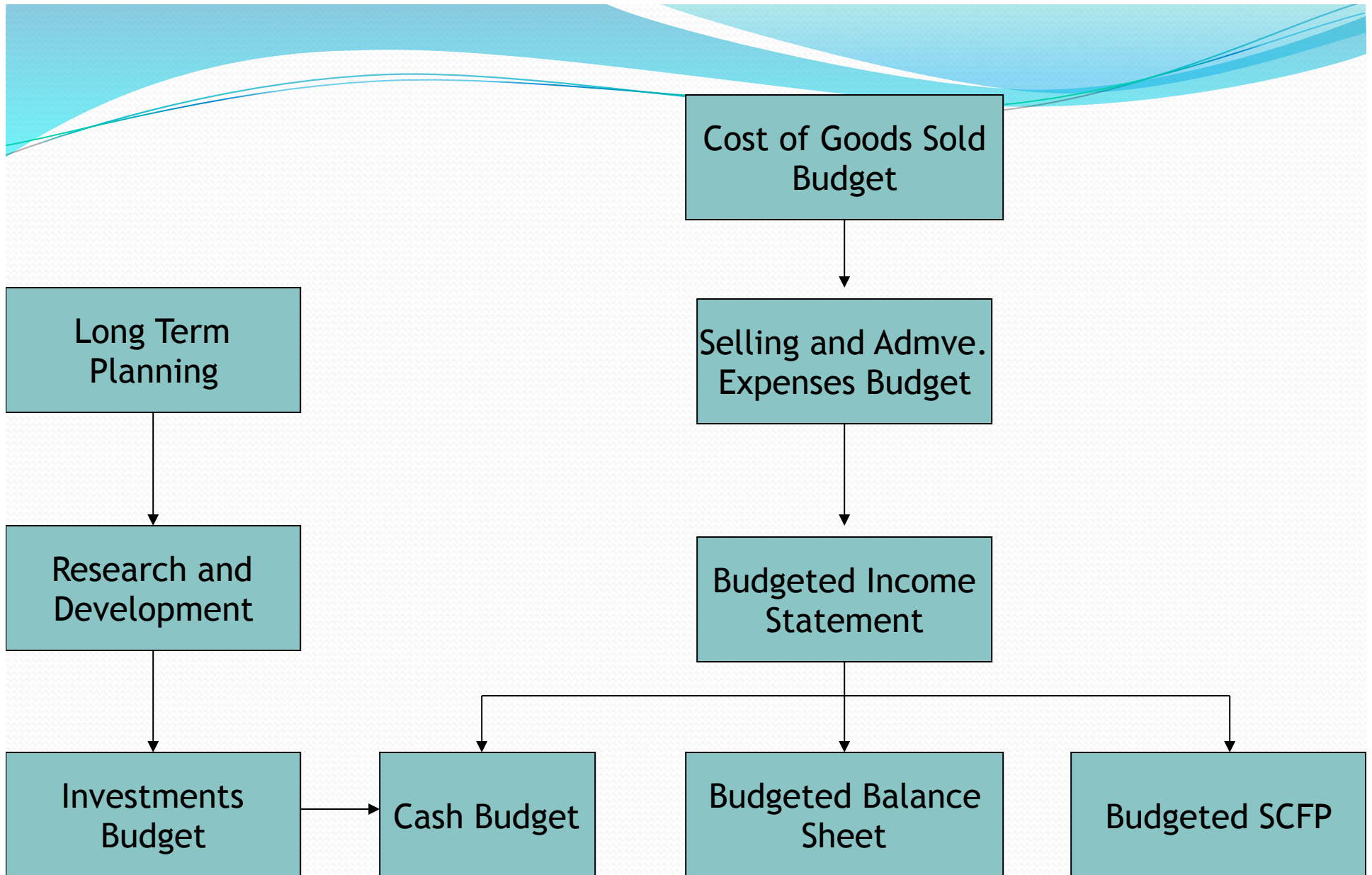
Flexible

- **Control tool**
 - Where are we, with respect to where we wanted to be?
 - Variances
 - Variance Investigation
 - Corrective decisions

Profit Planning – Master Budget

A plan of action expressed in monetary terms in order to achieve a specific objective at the end of a specific time period. It identifies and allocates the necessary resources to achieve it.





Sales Budget

- Selling Price
 - Price Strategy
- Sales Mix
- Interpretation of the competitors' actions
- Legal Rules and Regulations
- Monopoly, oligopoly, etc.

Production/Purchases Budget

- Sales Budget
- + Desired Ending Inventory
- Actual Beginning Inventory
- = Production/Purchases Budget

Direct Materials Budget

- Production
- + Desired Ending Inventory
- Actual Beginning Inventory
- = Purchases of Direct Materials Budget

Direct labour Budget

- Given production/purchases mix,
- What kind of manufacturing Technology we will use?
- What kind of personnel do we need?
- How many employees do we need?
- What will be the hourly wage?
- Direct Labour Budget = DLH x hourly wage

Manufacturing Overhead Costs Budget

- Given production/purchases mix,
- What kind of manufacturing Technology we will use?
- How much MOH costs do we need?
- What are the cost drivers?
- Allocation rate = Budgeted MOH / Budgeted DLH

Cost of Goods Sold Budget

- Beginning Inventory of Finished Goods
- + Cost of Goods Manufactured
- Ending Inventory of Finished Goods
- = Cost of Goods Sold Budget

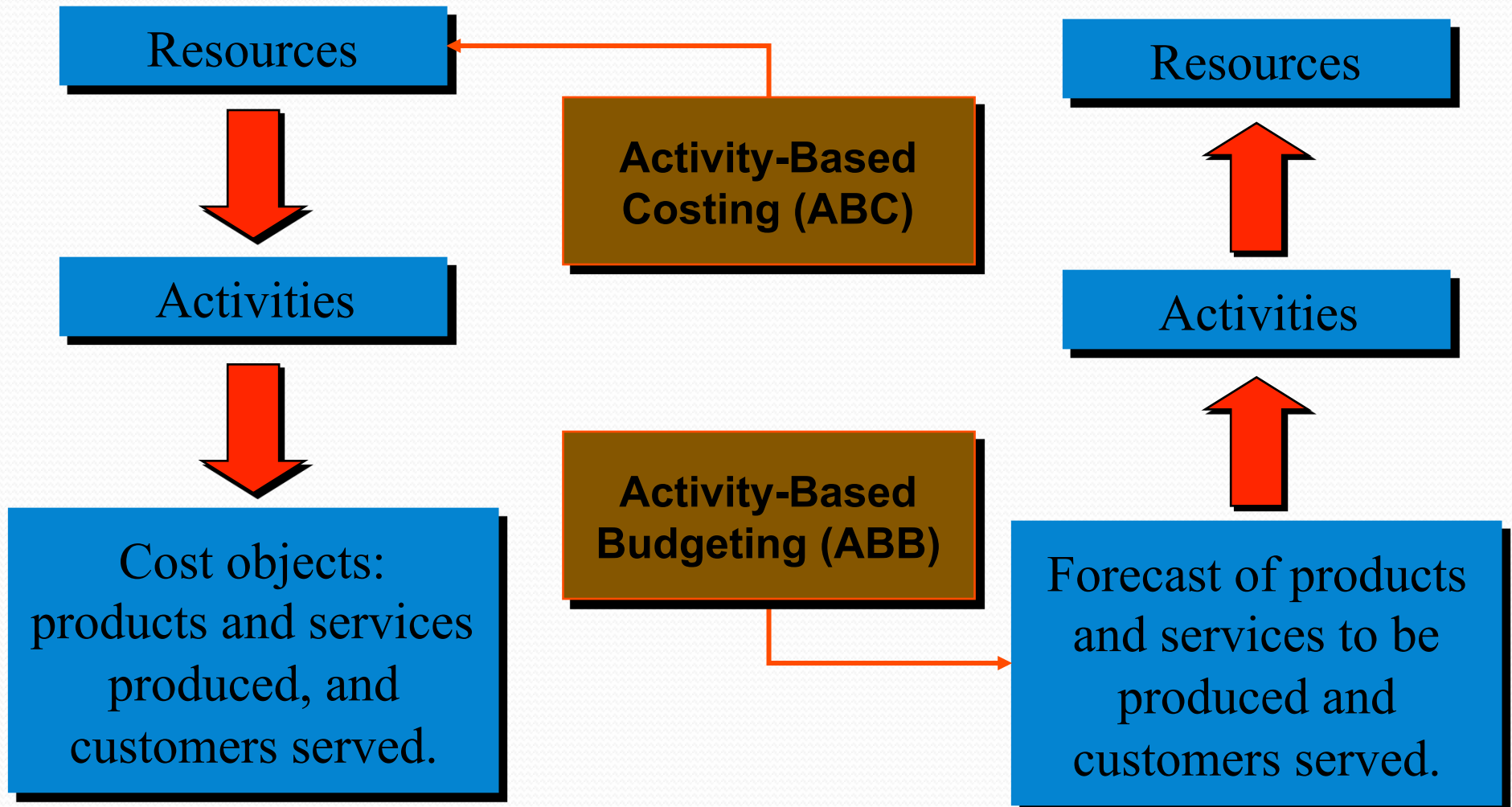
Balance Sheet Pro-forma

- Beginning Balance Sheet (Actual)
- ± Income Statement Pro-forma
- = Budgeted Balance Sheet

Cash Budget

- Beginning Balance
- + Cash Collections
- Cash Disbursements
- = Ending Balance

Activity-Based Costing versus Activity-Based Budgeting



Flexible Budget

- Budgeted Costs
- Determination of Variances
- Analysis of Variances
- Corrective Actions

Flexible Budget

	Budget	Actual	Variances
Sales in units	10,000 u	12,000 u	
Selling Price	\$20.00		
Variable Cost	\$12.50		
Sales	\$200,000	258,000	\$58,000 F
Variable Costs	125,000	130,000	5,000 U
Contribution Margin	\$75,000	\$128,000	\$53,000 F
Fixed Costs	\$50,000	56,000	\$6,000 U
Net Income	\$25,000	\$72,000	\$47,000 F

Flexible Budget

	Budget	Variance (Volume)	Flexible Budget	Variance (Efficiency)	Actual
Sales Units	10,000		12,000		12,000
Sales	\$200,000	\$40,000 F	\$240,000	\$18,000 F	\$258,000
Variable Costs	125,000	25,000 U	150,000	20,000 F	130,000
Contribution Margin	\$75,000	\$15,000 F	\$90,000	\$38,000 F	\$128,000
Fixed Costs	50,000	0.00	50,000	6,000 U	56,000
Net Income	\$25,000	\$15,000 F	\$40,000	\$32,000 F	\$72,000