

MANAGERIAL

by Managerail Managerial

Submission date: 15-Apr-2018 04:00PM (UTC-0400)

Submission ID: 947110658

File name: managerial_accounting.docx (19.14K)

Word count: 711

Character count: 3926

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Questions

A purchase budget shows the amount of inventory that a company ought to buy in a given budget period. The figure stated in the budget ensures that the organization has adequate stock to avoid any shortage or excessive cost of storage. Also, the purchase budget ensures that the organization meets the customers demand. At times, the budget may be equal to the total sales that the organization makes in the budgeting period. The process of making a purchase budget may be complex but it is important to understand the values to use so as to make a predictable purchases forecast. Some of the factors to consider in the preparation of the budget include service levels, beginning balance, cash usage and the production levels. The organization must calculate the forecast sales so that it can find out the required purchased. The merchandise Purchase budget for the Earrings Merchandise is as shown below:

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Merchandise Purchases Budget					
		April	May	June	Quarter
¹ Budgeted Unit Sales		\$65,000	\$100,000	\$50,000	\$215,000
Add Desired Ending Inventory					
(40% of the month's Ending Unit Sales)		\$40,000	\$20,000	\$12,000	\$12,000
Total Needs		\$105,000	\$120,000	\$62,000	\$227,000
Less Beginning Inventory		\$26,000	\$40,000	\$20,000	\$26,000
Required Purchases		\$79,000	\$80,000	\$42,000	\$201,000

From the sales budget we can find the desired sales target. The budgeted unit sales for April, May and June is from the sales budget for the merchandise. In case the organization requires

ending inventory it is important to include it. In every month, the merchandise requires 40% for the end sales. The summation shows the total needs that the company needs to meet the customers' demands. The quarter value shows the summation of the three months sales budget values. Once the opening inventory is deducted, one can get the required purchases. The purchase budget will help the Merchandize management in deciding the desired level of the purchase orders so that the supply will never fall short. All the customers' demand will be met when they are due. "The purchase budget helps in ensuring that the organization tracks all its inventory costs." (Heisinger, 2008)

The income statement shows an organization's expenses and the revenue in a given time frame. The financial statement helps in examining how a company spends its money and how it is generated. A budgeted income statement is a projection or forecast of the revenues or income. The values are obtained from the various budget account. It is commonly referred to as a pro-forma income statement. Some of the roles of a budgeted income statement include planning purpose and decision making. The budget helps the management in evaluating the organization's financial feasibility and make decisions on whether to cut on the costs. Once the final draft of the income statement is prepared, the financial department can establish if its operations are going towards the set strategy and objective. In case of any deviation from the budgeted value the management can look for any red flags. The contribution approach is used in the preparation of an income statement. The approach aggregates all the variable costs and deduct it from the sales revenue to get the contribution margin. Once the contribution margin is obtained, one will deduct the fixed variables to get the net profit or loss. In most cases, the approach is used with standard costing method to calculate the contribution margin (Heisinger, 2008)

Question 3

Earrings Unlimited budgeted income statement is prepared based on the values from the sales, purchases and product usage budget. For the three months ended by June 30th, the company's budgeted sales was \$21,150,000, the variable expenses are \$60,000, the commission on sales totaled to \$1,240,000. From the total variable expenses one can get the contribution margin. To get the net profit we deduct the fixed expenses from the contribution margin (Jiambalvo, 2010)

Earrings Unlimited				
Budgeted Income Statement				
For the Three Months Ended June 30				
Sales				2,150,000
Variable Expenses:			860,000	
COS at \$4 p/u			86,000	946,000
Commission 4% sales				1,240,000
Contribution Margin				
Fixed Expenses				
Advertising (200000x3)			600,000	
Rent (18000x3)			54,000	
Salaries (106000x3)			318,000	
Utilities (7000x3)			21,000	
Insurance (3000x3)			9,000	
Depreciation (14000x3)			42,000	1,044,000
Net Operating Income				160,000
Interest Expense				5,300

Net Income				154,700

References

Heisinger, K. (2008). *Introduction to managerial accounting*. Boston, Mass: Houghton Mifflin.

Jiambalvo, J. (2010). *Managerial Accounting*.

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