

# Horngren Accounting, 8th edition

Chapter 21: The Master Budget and Responsibility Accounting / The...

A)

## **P21-20A (L.OBJ. 1, 2, 6) Why managers use budgets, understanding the components of the master budget, and preparing performance reports for responsibility centers [50–60 min]**

Doggy World operates a chain of pet stores in the Midwest. The manager of each store reports to the regional manager, who, in turn, reports to the headquarters in Milwaukee, Wisconsin. The *actual* income statements for the Dayton store, the Ohio region (including the Dayton store), and the company as a whole (including the Ohio region) for July 2011 are as follows:

| <b>DOGGY WORLD</b><br><b>Income Statement</b><br>For the month ended July 31, 2011 |            |              |              |
|------------------------------------------------------------------------------------|------------|--------------|--------------|
|                                                                                    | Dayton     | Ohio         | Companywide  |
| Revenue                                                                            | \$ 158,400 | \$ 1,760,000 | \$ 4,400,000 |
| Expenses:                                                                          |            |              |              |
| Regional manager/headquarters office                                               | \$ –       | \$ 58,000    | \$ 122,000   |
| Cost of materials                                                                  | 85,536     | 880,000      | 1,760,000    |
| Salary expense                                                                     | 41,184     | 440,000      | 1,100,000    |
| Depreciation expense                                                               | 7,800      | 91,000       | 439,000      |
| Utilities expense                                                                  | 4,000      | 46,600       | 264,000      |
| Rent expense                                                                       | 2,500      | 34,500       | 178,000      |
| Total expenses                                                                     | 141,020    | 1,550,100    | 3,863,000    |
| Operating income                                                                   | \$ 17,380  | \$ 209,900   | \$ 537,000   |



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*Budgeted* amounts for July were as follows:

| DOGGY WORLD                          |            |              |              |
|--------------------------------------|------------|--------------|--------------|
| Budgeted Income Statement            |            |              |              |
| For the month ended July 31, 2011    |            |              |              |
|                                      | Dayton     | Ohio         | Companywide  |
| Revenue                              | \$ 173,400 | \$ 1,883,000 | \$ 4,650,000 |
| Expenses:                            |            |              |              |
| Regional manager/headquarters office | \$ -       | \$ 64,600    | \$ 124,000   |
| Cost of materials                    | 91,902     | 1,035,650    | 2,092,500    |
| Salary expense                       | 41,616     | 470,750      | 1,162,500    |
| Depreciation expense                 | 7,800      | 87,500       | 446,000      |
| Utilities expense                    | 4,900      | 54,600       | 274,000      |
| Rent expense                         | 3,400      | 32,700       | 169,000      |
| Total expenses                       | 149,618    | 1,745,800    | 4,268,000    |
| Operating income                     | \$ 23,782  | \$ 137,200   | \$ 382,000   |

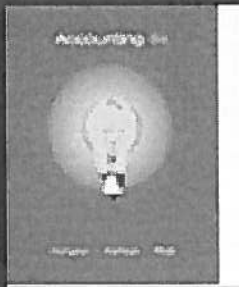
### Requirements

1. Prepare a report for July 2011 that shows the performance of the Dayton store, the Ohio region, and the company as a whole. Follow the format of Exhibit 21-20.
2. As the Ohio regional manager, would you investigate the Dayton store on the basis of this report? Why or why not?
3. Should Doggy World prepare the master budget? Briefly discuss the benefits of budgeting. Base your discussion on Doggy World's performance report.

### R21-21A (L.OB. 2) Preparing an operating budget [30 min]

The budget committee of Clipboard Office Supply has assembled the following data. As the business manager, you must prepare the budgeted income statements for May and June 2011.

### Requirement



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### P21-21A (L.OBJ. 2) Preparing an operating budget [30 min]

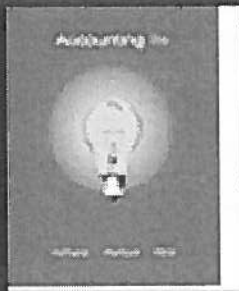
The budget committee of Clipboard Office Supply has assembled the following data. As the business manager, you must prepare the budgeted income statements for May and June 2011.

#### Requirement

- Sales in April were \$50,000. You forecast that monthly sales will increase 2.0% in May and 2.4% in June.
- Clipboard maintains inventory of \$9,000 plus 25% of the sales revenue budgeted for the following month. Monthly purchases average 50% of sales revenue in that same month. Actual inventory on April 30 is \$13,000. Sales budgeted for July are \$65,000.
- Monthly salaries amount to \$3,000. Sales commissions equal 4% of sales for that month. Combine salaries and commissions into a single figure.
- Other monthly expenses are as follows:

|                      |                                     |
|----------------------|-------------------------------------|
| Rent expense         | \$2,600, paid as incurred           |
| Depreciation expense | \$300                               |
| Insurance expense    | \$200, expiration of prepaid amount |
| Income tax           | 20% of operating income             |

- Prepare Clipboard Office Supply's budgeted income statements for May and June. Show cost of goods sold computations. Round *all* amounts to the nearest \$100. (Round amounts ending in \$50 or more upward, and amounts ending in less than \$50 downward.) For example, budgeted May sales are \$51,000 ( $\$50,000 \times 1.02$ ), and June sales are \$52,200 ( $\$51,000 \times 1.024$ )



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*Note: Problem 21-21A must be completed before attempting Problem 21-22A.*

### **P21-22A (L.OBJ. 4) Preparing a financial budget [30 min]**

Refer to P21-21A. Clipboard Office Supply's sales are 75% cash and 25% credit. (Use the rounded sales values.) Credit sales are collected in the month after sale. Inventory purchases are paid 25% in the month of purchase and 75% the following month. Salaries and sales commissions are also paid half in the month earned and half the next month. Income tax is paid at the end of the year.

The April 30, 2011, balance sheet showed the following balances:

|                                        |           |
|----------------------------------------|-----------|
| Cash .....                             | \$ 25,000 |
| Accounts payable .....                 | 53,000    |
| Salaries and commissions payable ..... | 2,500     |

### **Requirements**

1. Prepare schedules of (a) budgeted cash collections, (b) budgeted cash payments for purchases, and (c) budgeted cash payments for operating expenses. Show amounts for each month and totals for May and June. *Round* your computations to the nearest dollar.
2. Prepare a cash budget similar to Exhibit 21-14. If no financing activity took place, what is the budgeted cash balance on June 30, 2011?

### **P21-23A (L.OBJ. 4) Preparing a financial budget [50–60 min]**

Box Printing of Baltimore has applied for a loan. Bank of America has requested a budgeted balance sheet at April 30, 2011, and a budgeted statement of cash flows for April. As Box Printing's controller, you have assembled the following information:

- a. March 31 equipment balance, \$80,900; accumulated depreciation, \$12,900
- b. April capital expenditures of \$16,900 budgeted for cash purchase of equipment
- c. April depreciation expense, \$600
- d. Cost of goods sold, 45% of sales
- e. Other April operating expenses, including income tax, total \$33,000, 40% of which will be paid in cash and accrued at the end of April
- f. March 31 stockholders' equity, \$136,700