6. Analysis of short-term financing needs:

Projected cash balance as of December 31, 20x0	$
Less: Minimum cash balance	
Cash available for equipment purchases	$
Projected proceeds from sale of marketable securities	
Cash available	$
Less: Cost of investment in equipment	
Required short-term borrowing	$

7. Prepare Global Electronics' budgeted income statement for the first quarter of 20x1. (Ignore income taxes.)
8. Prepare Global Electronics' budgeted statement of retained earnings for the first quarter of 20x1.
9. Prepare Global Electronics' budgeted balance sheet as of March 31, 20x1. (*Hint:* On March 31, 20x1, Bond Interest Payable is $10,000 and Property Taxes Payable is $1,800.)

Cases

Case 9–43
Participative Budgeting
(LO 9-2, 9-3, 9-9)

Jack Riley, controller in the division of social services for the state, recognizes the importance of the budgetary process for planning, control, and motivational purposes. He believes that a properly implemented participative budgetary process for planning purposes and an evaluation procedure will motivate the managers to improve productivity within their particular departments. Based upon this philosophy, Riley has implemented the following budgetary procedures.

- An appropriation target figure is given to each department manager. This amount is the maximum funding that each department can expect to receive in the next year.
- Department managers develop their individual budgets within the following spending constraints as directed by the controller's staff.
  - Expenditure requests cannot exceed the appropriation target.
  - All fixed expenditures should be included in the budget. Fixed expenditures would include such items as contracts and salaries at current levels.
  - All government projects directed by higher authority should be included in the budget in their entirety.
- The controller's staff consolidates the budget requests from the various departments into a master budget submission for the entire division.
- Upon final budget approval by the legislature, the controller's staff allocates the appropriation to the various departments on instructions from the division manager. However, a specified percentage of each department's appropriation is held back in anticipation of budget cuts and special funding needs. The amount and use of this contingency fund is left to the discretion of the division manager.
- Each department is allowed to adjust its budget when necessary to operate within the reduced appropriation level. However, as stated in the original directive, specific projects authorized by higher authority must remain intact.
- The final budget is used as the basis of control. Excessive expenditures by account for each department are highlighted on a monthly basis. Department managers are expected to account for all expenditures over budget. Fiscal responsibility is an important factor in the overall performance evaluation of department managers.

Riley believes his policy of allowing the department managers to participate in the budgetary process and then holding them accountable for their performance is essential, especially during times of limited resources. He further believes that the department managers will be positively motivated to increase the efficiency and effectiveness of their departments because they have provided input into the initial budgetary process and are required to justify any unfavorable performances.

Required:

1. Describe several operational and behavioral benefits that are generally attributed to a participative budgetary process.
2. Identify at least four deficiencies in Jack Riley's participative policy for planning and performance evaluation purposes. For each deficiency identified, recommend how it can be corrected.

(CMA, adapted)