

# Analyzing the master budget essay sample

[Business](#), [Company](#)



A master budget is a summary of a company's plans in which specific targets are set for sales, production, distribution, and financing activities and that generally culminates in a cash budget, budgeted income statement, and budgeted balance sheet ([www. mcgrawhill. ca/college/garrison5/student/olc/5mag](http://www.mcgrawhill.ca/college/garrison5/student/olc/5mag)).

The " Analyzing the Master Budget" simulation summary takes you through different scenarios where changes occur in the master budget. These changes require that you analyze the impact and make modifications to the master budget in order for the organization to remain financially stable. According to the simulation, a master budget is a helpful tool to prepare an organization financially. The screenshots of the completed simulation are included in Appendix A, B, and C.

It is important for organizations to prepare detailed budgets in order to meet their goals and objectives. Detailed budgets include sales forecasts, production forecasts, operating expenses, capital expenditure, cash budget and others. The name of the collection of budgets is the Master Budget..

In regards to accuracy of a budgeting process, all budgets need to be as accurate as possible. To help ensure accuracy of a budget process, an organization can develop a bottom-up process by involving each department in order to recognize any special problems or needs within each department expense. By doing so, the budget committee can adjust proposals as needed to ensure that all parties accept the budget as reasonable and attainable.

This is not to say that you may not have sudden changes in your company's budget. To avoid any sudden changes in a company's cost structure, plan <https://assignbuster.com/analyzing-the-master-budget-essay-sample/>

and monitor for these changes in advance. One way is to prepare monthly and quarterly budgets and revise when necessary.

Planning can have an impact on your cash budget – projection of your company's cash inflow and outflow over a specific period. The purpose of a cash budget is to predict when the company may have a cash shortage or cash overage. It is important to monitor a cash budget at all times, not just during a liquidity crisis. A cash budget is towards short-term financial goals so that management can prearrange loans to cover anticipated cash shortages before needed. A successful company prepares an analysis of the cash flow and a timeline.

Monitoring at all times gives the organization an opportunity to make sure it is moving in the right direction. Monitoring also gives the organization the ability to determine how much liquidity is required to assure a company can pay its creditors under any circumstances. As you are developing a budget, you may have areas of concern the type of impact these will have on your budget. Some of these include:

\* What effects does increased sales have on expenses? An increase in a company's sales usually implies an increase on the expense side as well. Because of increased sales, costs in labor, manufacturing, materials, marketing, support services and utilities along with other expense are impacted.

\* How are long-term capital expenditures budgeted in a quarterly budgeting process? Long-term capital expenditures are included in the budgeting

process by accounting for the consumption of the asset by either depreciation or amortization and the debt expense incurred for the period for the capital expenditure item.

It is important for organizations and its employees to realize that budgeting requires “ clear channels of communication, support from upper-level management, participation from various personnel, and predictive characteristics”. (p. 18). You cannot complete a budget without the input from all departments. Doing so is like taking a three legged dog to the track, he may be able to run, but he will never win.

#### References:

Evans, Matt H. (2003). Course 2: Excellence in Financial Management. Financial Planning and Forecasting.  
<http://www.exinfm.com/training/pdfiles/course02.pdf>