

What is a Master Budget?

Worksheet

A master budget is the set of interconnected operating budgets (sales, production, costs) and financial budgets (cash budget, budgeted income statement, budgeted balance sheet) that together forecast a company's entire financial future.

Questions

1. Which budget is the starting point for the entire master budget?
 - A) Cash budget
 - B) Sales budget
 - C) Production budget
 - D) Balance sheet budget
2. Which of these is a financial budget, not an operating budget?
 - A) Direct materials budget
 - B) Production budget
 - C) Cash budget
 - D) Selling expense budget
3. If sales forecast is 3,000 units, desired ending inventory 500, beginning inventory 400, what's the production budget?
 - A) 3,000 units
 - B) 3,100 units
 - C) 2,900 units
 - D) 3,500 units
4. What is the final output of the master budget process?
 - A) The sales budget
 - B) The cash budget
 - C) The budgeted balance sheet
 - D) The direct labor budget
5. A company forecasts selling 5,000 units at \$40 each in Q1. Calculate the sales budget revenue.
6. Budgeted sales are 5,000 units; desired ending inventory is 800 units; beginning inventory is 600 units. Find the production budget.
7. Beginning cash is \$10,000, budgeted cash receipts are \$50,000, and budgeted disbursements are \$45,000. Find the ending cash balance for the cash budget.
8. Define: What is a master budget?
9. Define: What are the two main categories of budgets in a master budget?
10. Define: Which budget is prepared first?

Answer Key

1. B) Sales budget - All other budgets are derived from the sales forecast.
2. C) Cash budget - The cash budget, budgeted income statement, and budgeted balance sheet are the financial budgets.
3. B) 3,100 units - $\text{Production} = 3,000 + 500 - 400 = 3,100$.
4. C) The budgeted balance sheet - The budgeted balance sheet is the last statement prepared, summarizing projected financial position.
5. $\text{Units} = 5,000$ $\text{Price} = \$40$ $\text{Sales Revenue} = 5,000 \times \$40 = \$200,000$
6. $\text{Production} = \text{Sales} + \text{Desired Ending Inventory} - \text{Beginning Inventory}$ $\text{Production} = 5,000 + 800 - 600 = 5,200$ units
7. $\text{Ending Cash} = \text{Beginning Cash} + \text{Receipts} - \text{Disbursements}$ $\text{Ending Cash} = 10,000 + 50,000 - 45,000 = \$15,000$
8. A comprehensive plan combining all operating and financial budgets into one document for a future period.
9. Operating budgets (sales, production, costs) and financial budgets (cash budget, budgeted income statement, budgeted balance sheet).
10. The sales budget - every other budget is built from the sales forecast.

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