Chapter 10
MASTER BUDGET AND RESPONSIBILITY ACCOUNTING

10-4 We agree that budgeted performance is a better criterion than past performance for judging managers, because inefficiencies included in past results can be detected and eliminated in budgeting. Also, future conditions may be expected to differ from the past and these can also be factored into budgets.

10-5 Production and marketing traditionally have operated as relatively independent business functions. Budgets can assist in reducing conflicts between these two functions in two ways. Consider a beverage company such as Coca-Cola or Pepsi-Cola:
- Communication. Marketing could share information about seasonal demand with production.
- Coordination. Production could ensure that output is sufficient to meet, for example, high seasonal demand in the summer.

10-6 Yes. In many organisations, budgets impel managers to plan. Without budgets, managers drift from crisis to crisis. Research also shows that budgets can motivate managers to meet targets and improve their performance. Thus, many top managers believe that budgets meet the cost-benefit test.

10-10 Sensitivity analysis adds an extra dimension to budgeting. It enables managers to examine how budgeted amounts will change with changes in the underlying assumptions. This assists managers in monitoring those assumptions that are most critical to a company in attaining its budget and allows them to make timely adjustments to plans when appropriate.

10-11 *Kaizen budgeting* is a budgetary approach that explicitly incorporates continuous improvement anticipated during the budget period into the budget numbers.

10-12 Non-output-based cost drivers can be incorporated into budgeting by the use of activity-based budgeting (ABB). ABB focuses on the budgeted cost of activities necessary to produce and sell products and services. Non-output-based cost drivers, such as the number of part numbers, number of batches and number of new products can be used with ABB.
10-13 The choice of the type of responsibility centre determines what the manager is accountable for and thereby affects the manager’s behaviour. For example, if a revenue centre is chosen, the manager will focus on revenues, not on costs or investments. The choice of a responsibility centre type guides the variables to be included in the budgeting exercise.

Controllability is the degree of influence that a specific manager has over costs, revenues or related items for which he or she is responsible. A controllable cost is any cost that is primarily subject to the influence of a given responsibility centre manager for a given period. A responsibility accounting system could either exclude all uncontrollable costs from a manager’s performance report or segregate such costs from the controllable costs. For example, a machining supervisor’s performance report might be confined to direct materials, direct manufacturing labour, power and machine maintenance costs and might exclude costs such as rent and taxes paid on the plant.

10-14 Budgeting in multinational companies may involve budgeting in several different foreign currencies. Further, management accountants must translate operating performance into a single currency for reporting to shareholders, by budgeting for exchange rates. Managers and accountants must understand the factors that impact exchange rates, and where possible, plan financial strategies to limit the downside of unexpected unfavourable moves in currency valuations. In developing budgets for operations in different countries, they must also have good understanding of political, legal and economic issues in those countries.