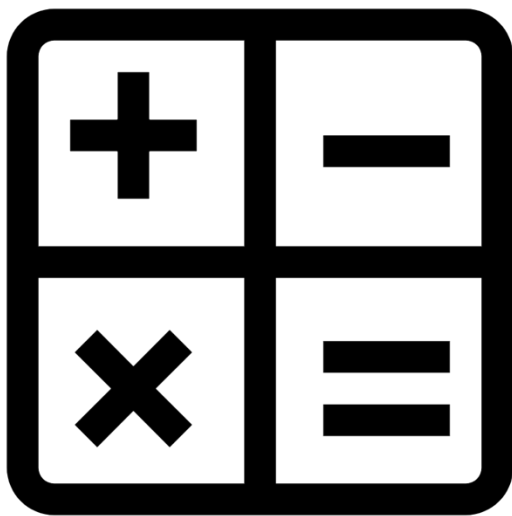




Department of
Education

Year 12 ATAR Accounting and Finance Unit 3: Budgeting



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Year 12 ATAR Accounting and Finance

Unit 3

Topic: Budgeting

OVERVIEW

The aim of providing resources for Year 12 Accounting and Finance students is to assist students to revise and prepare for Semester 1 Examinations. Additionally, these resources are designed to supplement (not replace) your classroom teacher's programme.

The following format applies to this booklet:

Section 1: Syllabus requirements

Please familiarise yourself with the syllabus requirements for each topic. Including links to the SCSA website for important curriculum documents. You will need to access the 2020 Specifications Booklet. Click this link to download a copy of the booklet: https://senior-secondary.scsa.wa.edu.au/data/assets/pdf_file/0012/593895/2020_ACF_Specification_Booklet.PDF

Section 2: Theory Content

Read through this section, taking notes and highlighting important concepts. Also included in this section are links to various videos to assist in your understanding of the topics.

Section 3: Activities

Various questions based on the topic content. Each question is followed by the suggested solution. This section includes ATAR Exam questions from previous years.

Section 1: Syllabus content covered:

Financial Institutions and systems: Financial Systems and Fundamental Principles

- The nature and importance of the master budget
- The components of the master budget
 - Operating
 - Capital expenditure
 - Financial

Recording, Using and Evaluating Financial Information: Recording, Processing and Communicating Financial Information

- Preparation of cash budgets, including debtors' and creditors' schedules
- Preparation of budgeted income statements
- Preparation of performance reports for cash budgets and budgeted income statement.

Recording, Using and Evaluating Financial Information: Evaluating Financial Information for Planning, Coordinating, Controlling and Investing

- Purpose and function of cash budgets
 - Importance of cash to business viability
 - Interpretation of cash budgets
- Purpose and function of budgeted income statement
- Interpretation of budgeted income statement
- Difference between cash and accrual performance
- Purpose and function of performance reports
- Interpretation of performance reports for cash budgets and budgeted income statements

You can find other important Accounting and Finance Course Information at:

<https://senior-secondary.scsa.wa.edu.au/syllabus-and-support-materials/humanities-and-social-sciences/accounting-and-finance>

Topic: Budgeting

Section 2: Reading and Note Taking Section

- *Section 2: The following pages will outline the theory components of this topic.*
- *Please take time to read through this information, taking notes and highlighting important concepts.*
- *Then move on to Section 3: Activities Section for activities and exam style questions.*

Introduction to Budgets

Budgets are based on estimates of the financial results of future business activities. A budget is a plan of action which reflects the goals set by business owners and managers. Budgets set financial limits for the operations of a business. If budget goals are achieved, then business goals are achieved. If the budget figures are not met, then the causes need to be investigated and action taken.

Budgets must be flexible. Through a process of review, they can reflect changes in economic circumstances to make sure targets are realistic.

When making decisions about purchasing assets and supplies, new projects and business growth, budgets are useful to model how change will impact on the liquidity and profitability of the business.

Cash versus Accrual

There are two methods to account for business transactions, *cash and accrual*. Each method gives a different view of business performance. The main difference is due to recognition criteria.

Under the accrual method, income and expenses are recognised when they can be reliably measured and they are likely to occur. The aim is to produce a profit figure that accurately measures the profit earned in an accounting period. This means that even if a sale is on credit or a telephone bill has been received but not paid, it is included in the reports because it relates to business performance in the current period. When an invoice is generated or a bill received, it can be reliably measured and verified.

Under the cash method, income and expenses are recognised when cash is received or cash is paid. Profit represents a surplus of cash; cash inflows are greater than cash outflows. With the cash method, the sale would be recorded when the debtor pays the debt and the expense recorded when the telephone bill is paid because they are based on cash flows.

The differences between cash and accrual are examined below.

Cash	Accrual
<ul style="list-style-type: none"> • based on cash receipts and payments in a period • cash flows included even if it relates to a different period • does not include balance day adjustments. Items can include amounts relating to business activities from different accounting periods • reports do not include items that are not cash flows, such as discounts, credit sales, depreciation and doubtful debts. 	<ul style="list-style-type: none"> • based on income earned and expenses incurred • only includes items that are recognised in the current period • balance day adjustments are needed to ensure all items reflect the business activities of the current accounting period • reports include adjusted cash and non-cash items.

The Master Budget

The master budget integrates the budgeting from all sections of the business. Its purpose is to show business owners and managers a complete overview of planned business activities and changes.

The master budget covers a 12-month accounting period. The master budget shows forecasts of results from the implementation of strategic plans.

In one document readers can see expected liquidity and profitability for a period of time. It is important for the master budget to be prepared because it shows expected results for the business as a whole.

The budgets from all sections of the business are integrated and presented addressing three areas of the business. The three areas are examined below.

1. Operating Budget

The operating budget provides all the information necessary to prepare a budgeted income statement. It includes:

- revenue projections
- cost of goods sold projections -including projected costs of materials, labour, and overhead for a manufacturing firm or costs of purchases for a merchandising firm
- estimated selling and distribution expenses
- estimated general and administrative expenses
- estimated financial expenses.

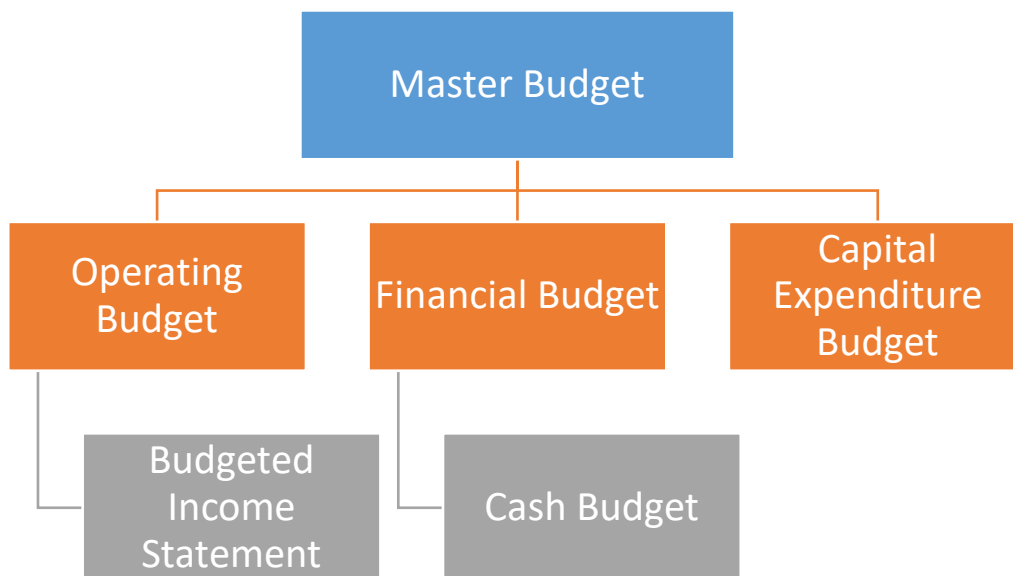
The separate budgets for sales, production, purchasing, administrative and others are combined into an overall operating budget and a projected income statement showing expected profit at the end of the period.

2. Financial Budget

The financial budget includes the cash budget, projected cash flows and a budgeted balance sheet.

3. Capital expenditure budget

The capital expenditure budget reviews and plans the capital expenditure the business needs to achieve its goals. It includes planned purchases, replacements and upgrades to non-current assets such as buildings, office equipment, machinery and vehicles. It may also include the costs associated with business expansion and the launch of new products.



For the purposes of this unit, we will focus on how to prepare the Cash Budget and Budgeted Income Statement.

The Cash Budget

Understanding where cash is coming from and going to is a critical part of business management. A business making a profit can still have problems with liquidity.

On an accrual basis, a business may be profitable but if it does not have the cash to pay for its operations, it will fail. A cash budget is a management tool to model future liquidity based on current and planned business activities.

A cash budget can predict cash flow peaks and troughs and enable business owners and managers to plan to take advantage of a surplus or find funds to fill the cash flow gaps.

These steps might include:

- close scrutiny of accounts receivable to increase collections
- reducing inventory
- delaying payments to creditors
- locating cheaper suppliers or looking to outside sources of cash such as loans, new partners or a share issue.

The cash budget is prepared on a *cash basis* and includes all expected cash inflows and outflows, even if they relate to a transaction from a different accounting period.

A cash budget shows the anticipated cash flow into and out of a business and an estimated bank balance at a future point in time.

Preparing a cash flow budget involves:

1. preparing a sales forecast
2. forecasting cash inflows
3. projecting anticipated cash outflows
4. putting the projections together for the cash flow budget.

Format of a Cash Budget:

**XYZ Company
Cash Budget
For the period ending 30 June 20XX**

Description	\$
Cash balance at beginning	
<i>Add estimated receipts</i>	
Collections from debtors	
Cash sales	
Proceeds from sale of vehicle	
Total cash available	
<i>Less estimated payments</i>	
Purchase of vehicle	
Payment to creditors	
Sales commission	
Wages	
Electricity	
Other expenses	
Total estimated payments	
Cash balance at end	

Estimated receipts can also include earnings from investments, proceeds from the sale of non-current assets and additional capital invested by owners.

When a cash budget is prepared, the next step is to interpret the results to plan for the future. Read some examples of questions that may arise when interpreting a cash budget below.

Examine the estimated receipts:

- Are debtors paying their debts on time?
- How can debtors be encouraged to pay earlier?
- How can customers be encouraged to pay cash?
- Is the income from investments sustainable? Can it be increased?
- Can business income be maintained or increased?
- Are there other assets that can be sold? Will asset sales impact on business operations?

Examine the estimated payments:

- Are increases in expenses explained by business activities?
- Can cheaper suppliers be found?
- Is it possible to take advantage of credit terms and discounts when dealing with suppliers?
- Can payments to creditors be delayed?
- Should capital expenditure be cut in order to meet immediate cash needs?

Ending cash balance

- Is there enough cash in the bank to maintain solvency?
- Does the business need to obtain funding to fill a cash shortage?
- What strategies could be put in place to improve the cash situation?
- What should the business do with surplus cash - buy assets, pay off debt, invest it, distribute it to owners or employees as bonuses?

Items not included in a cash budget

These items do not represent a movement of cash for the accounting period.

Depreciation	Credit Sales
Carrying amount of asset	Drawings other than cash
Doubtful debts	Accrued expenses
Bad debts	Accrued revenues
Credit purchases	Discount expense
Discount income	Supplies expense

This video will take you through how to complete a Cash Budget

<https://www.youtube.com/watch?v=S3Sv02iXo0c>

Budgeted Income Statement

Once the operating budgets have been set, the budgeted income statement can be prepared. It shows the expected income and expenses for an accounting period and it may be prepared on a monthly basis.

Details from the sales, purchasing, marketing and administrative budgets are included to show a projected profit figure for the period.

The budgeted income statement may have explanatory notes attached to explain figures. It may be necessary to show why some expenses are at certain levels, highlight one-off income and expense items and to explain assumptions about depreciation and bad and doubtful debts. Ratios may be calculated to interpret the information and give projected performance indicators.

Unlike the cash budget, the budgeted income statement is prepared on an accrual basis. Balance day adjustments and items such as depreciation, credit sales and discounts are included to give a more accurate and realistic profit projection.

Format of a budgeted income statement:

The budgeted income statement follows the usual format for an income statement, as shown below.

XYZ Company
Budgeted Income Statement
For the month ending 30 June 20XX

	\$	\$
Sales		XXX
Less cost of sales	XXX	
Add freight inwards	XXX	
Less discount received	XXX	XXX
Gross Profit		XXX
Add other income		
Interest on Investments	XXX	XXX
		XXX
Less other expenses		
Salesperson's salary	XXX	
Administration expenses	XXX	
Rent	XXX	
Interest on loan	XXX	
Loss on sale of equipment	XXX	
Depreciation – equipment	XXX	XXX
Profit/Loss		XXX

Performance Reports

A performance report compares budget targets to actual results. To prepare a performance report, two columns are added to the cash budget and the budgeted income statement: one column to show actual results and a variance column.

The variance column shows the difference between the budget and actual figures. A favourable variance is when a payment is lower than predicted or a receipt is higher than predicted. An 'F' is inserted in the variance column to highlight a favourable variance. An unfavourable variance is when a payment is higher than predicted or a receipt result is lower than the budget figure. A 'U' is inserted in the variance column to highlight unfavourable variances.

This identifies areas for further investigation and corrective action within the business. Business owners and managers will find out why the actual result was significantly different from what was planned and whether there is a trend or if it is due to a once-off event. The steps to prepare a performance report are below.

1. Record the actual figures of items beside their budgeted figures.
2. Calculate the difference or variance between the budget figure and the actual figure.
3. Identify variances as favourable (better than predicted) or unfavourable (worse than predicted).
4. Comment on and make recommendations about the variances.

Interpretation of Variances

Depending on the nature of the variance, different recommendations can be made to the business owners and managers.

Favourable variances

Actual income is higher than budget.	Is it sustainable or once-off?
Actual expense is lower than budget.	Is it due to cheaper suppliers or delaying payment?
Actual payment is lower than budget.	Can it be sustained? Will creditors be happy with delayed payments?
Actual receipt is higher than budget.	Is it due to better internal control of debtors? Can it be continued?
Actual closing bank and profit higher than budget.	Can it be sustained? How can surplus cash be used by the business?

Unfavourable variances

Actual income is lower than budget.	Find ways to increase income. Look at products for slow sellers; may need to review products and marketing.
Actual receipt is lower than budget.	Find ways to increase collections from debtors or better ways to invest.
Actual expense is higher than budget.	Find cheaper suppliers, control costs and increase efficiency.
Actual payment is higher than budget.	Look into why it was higher. Can asset purchases be financed by debt and not cash? Do suppliers provide credit terms?
Actual closing bank and profit lower than budget.	How can expenses be controlled and income increased? How can receipts be increased and payments managed? How can the business cover the cash shortfall?

Format of a budget variance report:

Two columns are added to the cash budget to compare actual results to the budget targets and a column to identify variances. Similarly, with the performance report for a budgeted income statement, two columns are added to the budgeted income statement. An example of a cash budget performance report is shown below.

	Budget \$	Actual \$	Variance \$
Opening bank balance			
Receipts			
Cash sales			
Collections from debtors/accounts receivable			
Interest on investments			
Proceeds from sale of equipment			
Total cash available			
Payments			
Salesperson's salary			
Administration expenses			
Rent			
Freight inwards			
Equipment			
Payments to creditors			
Interest on loan			
Total payments			
Closing bank balance			

Section 3: Activities Section

- *This section includes activities and exam style questions relevant to this topic.*
- *The solutions are included after each question.*
- *Attempt the question and then use the solution to assess your performance and revise.*

Prepare debtors' and creditors' schedules

Question 1

Acorn Entertainment was established on 1 June 200x. They sell home theatre systems. Projected sales for the first four months of trading are:

June	Nil
July	120 000
August	150 000
September	210 000

The company anticipates that 20% of its sales will be cash. It is predicted that the internal control of accounts receivable will result in the collection of 70% of credit sales in the month of the sale and 30% in the month following sale.

Prepare a debtors' schedule for the four months of trading.

Month	Credit sales	June	July	August	September
June					
July					
August					
September					

Question 1 Solution

Acorn Entertainment - Prepare a debtors' schedule for the four months of trading.

Month	Credit sales	June	July	August	September
June	0	0	0		
July	96 000		67 200	28 800	
August	120 000			84 000	36 000
September	168 000				117 600
Total	384 000	0	67 200	112 800	153 600

Question 2

Estimated sales are shown below.

Month	Cash sales	Credit sales
June	20 000	59 600
July	24 000	61 200
August	23 000	72 000

Accounts receivable settle their accounts as follows:

- 50% in the month following the sale
- 50% in the second month following the sale.

Complete a schedule showing the expected cash receipts from debtors.

Month	Total credit sales	July	August	September
June				
July				
August				
Total				

Question 2 Solution

Month	Total credit sales	July	August	September
June	59 600	29 800 (59 600 x 50%)	29 800 (59 600 x 50%)	
July	61 200		30 600 (61 200 x 50%)	30 600 (61 200 x 50%)
August	72 000			36 000 (59 600 x 50%)
Total	192 800	29 800	30 600	66 600

Question 3

The following credit purchases were made in the first quarter of 200x.

Month	Credit Purchases
December	101 000
January	89 000
February	97 000
March	77 000

Creditors are paid in full in the month following the purchase to take advantage of a 2% discount. Prepare a creditors' schedule for the first quarter of 200x.

Creditors' schedule for the first quarter 200x

Month	Credit purchases	January	February	March
December				
January				
February				
Total				

Question 3 Solution

Creditors' schedule for the first quarter 200x

Month	Credit purchases	January	February	March
December	101 000	98 980 (101 000 x 2%)		
January	89 000		87 220 (89 000 x 2%)	
February	97 000			95 060 (97 000 x 2%)
Total	287 000	98 980	87 220	95 060

Question 4

The following credit sales and purchases were made from December to March:

Month	Credit sales	Month	Credit Purchases
December	22 000	December	15 000
January	28 000	January	12 000
February	24 000	February	13 000
March	26 000	March	21 000

All debtors generally pay as follows:

- 50% in the first month after sale, 30% in the second month after sale.
- 20% in the third month after sale.

Accounts payable are paid in the month following purchase.

Debtors' schedule

Month	Credit sales	January	February	March
December				
January				
February				
Total				

Creditors' schedule

Month	Credit purchases	January	February	March
December				
January				
February				
Total				

Question 4 Solution

Debtors' schedule for the first quarter

Month	Credit sales	January	February	March
December	22 000	11 000 (22 000 x 50%)	6 600 (22 000 x 30%)	4 400 (22 000 x 20%)
January	28 000		14 000 (28 000 x 50%)	8 400 (28 000 x 30%)
February	24 000			12 000 (24 000 x 50%)
Total	74 000	11 000	20 600	24 800

Creditors' schedule for the first quarter

Month	Credit purchases	January	February	March
December	15 000	15 000		
January	12 000		12 000	
February	13 000			13 000
Total	40 000	15 000	12 000	13 000

Question 5

From the following information prepare debtors' and creditors' schedules of predicted cash receipts and payments.

Credit purchases are usually paid for in the month following purchase to take advantage of a 1% discount.

Accounts receivable usually pay as follows:

- 60% in the month following sale (receiving a 5% discount for prompt payment)
- 30% in the second month following sale
- 10% in the third month following sale.

Creditors' schedule

Month	Credit purchases	June	July	August
May	60 000			
June	54 000			
July	55 000			
Total				

Debtors' schedule

Month	Credit sales	June	July	August
April	120 000			
May	124 000			
June	174 000			
July	155 000			
Total				

Question 5 Solution

Creditors' schedule

Month	Credit purchases	June	July	August
May	60 000	59 400 (60 000 x 1%)		
June	54 000		53 460 (54 000 x 1%)	
July	55 000			54 450 (55 000 x 1%)
Total	169 000	59 400	53 460	54 450

Debtors' schedule

Month	Credit sales	June	July	August
April	120 000	36 000 (120 000 x 30%)	12 000 (120 000 x 10%)	
May	124 000	70 680 (124 000 x 60%) minus discount (74 400 x 5%)	37 200 (124 000 x 30%)	12 400 (124 000 x 10%)
June	174 000		99 180 (174 000 x 60%) minus discount (104 400 x 5%)	52 200 (174 000 x 30%)
July	155 000			88 350 (155 000 x 60%) minus discount (93 000 x 5%)
Total	573 000	106 680	148 380	152 950

Question 6

The following information has been provided to you by Meeiegoes Enterprises.

**Meeiegoes Enterprises
Income statement
for the month ended 30 September 2020**

	\$	\$
Sales		242,000
<i>Less</i> Cost of sales	156,300	
<i>Less</i> Discount received	2,985	153,315
Gross profit		88,685
 <i>Less</i> Expenses		
Wages	32,000	
Bad debts	1,670	
Electricity	1,800	
Depreciation	3,250	
Sales commission	12,100	
Other expenses	17,135	67,955
 Profit for the period		20,730

Additional information:

- The closing bank balance in the general ledger account as at 30 September 2020 was \$16,500CR.
- The business expects to sell a vehicle during October and receive \$8,000 in cash for it. A loss of \$1,700 is expected on the sale of the vehicle.
- A new vehicle will be purchased in October for \$46,000 and will be paid for in cash.
- Sales are 30% cash and the remainder on credit. On average, 60% of credit sales are collected in the first month after sale, 38% in the second month after sale and the remaining 2% are never collected. Sales for August were \$175,000.
- Sales staff receive a 5% commission on sales which is paid in the month that the sale is made.

Continued next page...

Source: School Curriculum and Standards Authority, Accounting and Finance 2019 ATAR Examination
https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0005/592628/2019-ACF-Written-Examination.PDF

- Purchases of inventories are on credit, paid for in the month following purchase to take advantage of a 3% discount for prompt payment. Purchases in September were \$89,500, while October purchases are expected to be \$92,000.
 - Estimates for October, based on September's figures are:
 - Sales to increase by 3.5%
 - Wages to rise by \$7,000
 - Accrued wages to be \$9,000
 - Other expenses to increase by \$7,600
 - no changes are expected for other items.
- (a) Prepare a debtor's schedule outlining the total cash collected from debtors in the month of October 2020. (7 marks)

Workings:

Source: School Curriculum and Standards Authority, Accounting and Finance 2019 ATAR Examination
https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0005/592628/2019-ACF-Written-Examination.PDF

Question 6: Solution

- (a) Prepare a debtors schedule outlining the total cash collected from debtors in the month of October 2020. (7 marks)

Debtor’s schedule for the month ending 31 October 2020

Description						Marks
	Total sales	Cash 30%	Credit 70%		October	
August	175,000 (1)	52,500	122,500 (1)	122,500 x 38%	46,550 (1)	1–3
September	242,000 (1)	72,600	169,400 (1)	169,400 x 60%	101,640 (1)	1–3
					148,190 (1)	1
					Total	7

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 1 mark.

- (b) Prepare a cash budget for Meeiegoes Enterprises for the month ending 31 October 2020. (18 marks)

Workings:

October sales = 242,000 (1) x 103.5% (1) = 250,470

Cash sales = 250,470 x 30% (1) = 75,141

September sales staff commission = 250,470 (1) x 5% (1) = 12,523

Payment to creditors = September purchases = 89,500 (1) x 97% (1) = 86,815

Wages = 32,000 (1) + 7,000 (1) – 9,000 (1) = 30,000

Other expenses 17,135 (1) + 7,600 (1) = 24,735

Source: School Curriculum and Standards Authority, Accounting and Finance 2019 ATAR Examination Marking Key
https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0004/592627/2019-ACF-Ratified-Marking-Key.PDF

**Meeigoes Enterprises
Cash Budget
for the month ending 31 October 2020**

Description		Marks
Cash balance at beginning	(16,500)	1
<i>Add estimated receipts</i>		
Collections from debtors	148,190	1
Cash sales	75,141	1-3
Proceeds from sale of vehicle	8,000	1
Total cash available	214,831	
<i>Less estimated payments</i>		
Purchase of vehicle	46,000	1
Payment to creditors	86,815	1-2
Sales commission	12,523	1-2
Wages	30,000	1-3
Electricity	1,800	1
Other expenses	24,735	1-2
Total estimated payments	201,873	
Cash balance at end	12,958	1
	Total	18

Deduct 1 mark for each calculation error, to a maximum of 2 marks.

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

Deduct 1 mark for incorrect terminology (e.g. Purchases instead of Payment to creditors), to a maximum of 1 mark.

Source: School Curriculum and Standards Authority, Accounting and Finance 2019 ATAR Examination Marking Key
https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0004/592627/2019-ACF-Ratified-Marking-Key.PDF

(c) Explain the nature and importance of the master budget. (4 marks)

Description	Marks
Explains the nature and importance of the master budget	4
Describes the nature and importance of the master budget	3
Outlines the nature and importance of the master budget	2
Makes a general statement about the master budget	1
Total	4
<p>Answer(s) could include but are not limited to:</p> <p>The master budget plans, co-ordinates and controls all activities of a business. It includes a budget/planned income statement, cash flow, capital expenditure and statement of financial position. These statements are interrelated. Examples of coordination include cash planning to ensure adequate finance for operations, capital expenditure and dividends. Control is achieved by the preparation of performance reports by time, responsibility and activity, and management action based on those reports.</p> <p>The master budget:</p> <ul style="list-style-type: none"> • consists of a business' interrelated financial plans to achieve its strategic financial goals • is the aggregation of all lower-level budgets produced by a business' various functional areas, and includes budgeted financial statements, a cash forecast, and a financing plan • shows management's operating plans for the coming periods; formalises management's plans in quantitative terms; forces all levels of management to think ahead, anticipate results, and take action to remedy possible poor results; and may motivate individuals to strive to achieve stated goals • provides a plan to achieve revenue goals, expense controls, profit goals and adequate cash availability and reserves • can be used to set financial key performance indicators (KPIs) such as management needing to achieve budgeted sales • provides operational plans consistent with the strategic plan to aid the business to meet its profitability, liquidity and management efficiency goals • provides a business with a set of objectives to be achieved • assists to identify potential problem areas in the business • facilitates coordination of business activities • can be used to motivate employees to achieve set business targets • can be used by a business to evaluate its performance. <p>Accept any other reasonable answer</p>	

Please take the time to review your results.

Source: School Curriculum and Standards Authority, Accounting and Finance 2019 ATAR Examination Marking Key
https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0004/592627/2019-ACF-Ratified-Marking-Key.PDF

Question 7

The management of S-Bend Plumbing Pty Ltd has provided the following budgeted information for the two months ending 31 August 2020.

**S-Bend Plumbing Pty Ltd
Cash budget
for the two months ending 31 August 2020**

	July \$	August \$
Opening bank balance	120,000	105,854
Estimated receipts		
Cash sales	52,200	54,000
Collections from debtors/accounts receivable	10,950	13,050
Interest on investments	600	–
Proceeds from sale of equipment	81,900	–
Total cash available	265,650	172,904
Estimated payments		
Salesperson's salary	3,600	3,600
Administration expenses	2,700	2,700
Rent	6,000	–
Freight inwards	3,750	4,250
Equipment	108,000	–
Payments to creditors/accounts payable	34,920	36,750
Interest on loan	826	803
Total payments	159,796	48,103
Closing bank balance	105,854	124,801

Additional information:

- Sales are 80% cash and 20% credit. Credit terms are strictly 30 days and no discounts are offered.
- All purchases are on credit, with payment being made within 30 days to take advantage of a 5% discount received.
- The closing balance of the cost of sales account for July is anticipated to be \$45,072.
- Equipment was originally purchased for \$330,000 with a carrying amount of \$85,000 at the time of sale.
- Rent is paid quarterly. All other expenses are paid as they are incurred.
- Depreciation on all equipment is expected to be \$1,212 per month.

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination <https://senior-secondary.scsa.wa.edu.au/further-resources/past-atar-course-exams/accounting-and-finance-past-atar-course-exams>

-
- (a) Prepare a Budgeted income statement for S-Bend Plumbing Pty Ltd for the month ending 31 July 2020. (19 marks)

Workings:

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination <https://senior-secondary.scsa.wa.edu.au/further-resources/past-atar-course-exams/accounting-and-finance-past-atar-course-exams>

The management of S-Bend Plumbing Pty Ltd provided actual information relating to the month ended 31 July 2020.

- Collections from debtors/accounts receivable were \$7,050.
- Salesperson's salary was \$5,100.
- Administration expenses were \$2,500.
- Equipment purchased and paid for was \$130,000.
- Payments to creditors/accounts payable were \$38,900.
- Actual cash sales were 92% of budgeted cash sales.
- Gain on sale of equipment was \$5,900.
- All other receipts and payments were as budgeted.

(b)

- (i) Use the information above to complete a Cash budget performance report for S-Bend Plumbing Pty Ltd for the month ended 31 July 2020. (11 marks)

Workings:

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination <https://senior-secondary.scsa.wa.edu.au/further-resources/past-atar-course-exams/accounting-and-finance-past-atar-course-exams>

(c) Explain the purpose of a cash budget performance report. (3 marks)

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination <https://senior-secondary.scsa.wa.edu.au/further-resources/past-atar-course-exams/accounting-and-finance-past-atar-course-exams>

(d) Describe **two** possible causes of an unfavourable variance in a business' gross profit. (4 marks)

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination <https://senior-secondary.scsa.wa.edu.au/further-resources/past-atar-course-exams/accounting-and-finance-past-atar-course-exams>

Question 7: Solution

- (a) Prepare a Budgeted income statement for S-Bend Plumbing Pty Ltd for the month ending 31 July 2020. (19 marks)

Sales

Workings	Marks
<u>July cash sales</u> 80% = <u>52,200 (1)</u> = 65,250 80% (1) or July cash sales + August collections = 52,200 (1) + 13,050 (1) = 65,250	1–2
Total	2

(i.e. 2 marks carried forward to Budgeted income statement)

Discount received

Workings	Marks
Discount received = total purchases – payments to creditors Total purchases: <u>July total payments to</u> <u>creditors</u> 95% = <u>34,920 (1)</u> = 36,758 95% (1) Discount received: = (36,758 – 34,920) (1) = 1,838 or = (36,758 x 5%) (1) = 1,838	1–3
Total	3

(i.e. 3 marks carried forward to Budgeted income statement)

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination Marking Key
https://senior-secondary.scsa.wa.edu.au/data/assets/pdf_file/0008/542960/2018_ACF_Written_Examination_Web-version.PDF

Gain/loss on sale of investment

Workings	Marks
Proceeds – carrying amount 81,900 (1) – 85,000 (1) = (3,100) i.e. loss	1–2
Total	2

(i.e. 2 marks carried forward to Budgeted income statement)

Rent expense

	Marks
6,000 (1) ÷ 3 months (1) = 2,000	1–2
Total	2

(i.e. 2 marks carried forward to Budgeted income statement)

S-Bend Plumbing Pty Ltd
Budgeted income statement
for the month ending 31 July 2020

	\$	\$	Marks
Sales		65,250 (2)	2
Less cost of sales	45,072 (1)		1
Add freight inwards	3,750 (1)		1
Less discount received	1,838 (3)	46,984	3
Gross Profit (1)		18,266 (1)	2
Add other income			
Interest on Investments	600 (1)	600	1
		18,866	
Less other expenses			
Salesperson's salary	3,600 (1)		1
Administration expenses	2,700 (1)		1
Rent	2,000 (2)		2
Interest on loan	826 (1)		1
Loss on sale of equipment	3,100 (2)		2
Depreciation – equipment	1,212 (1)	13,438	1
Profit (1)		5,428	1
		Total	19

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for inclusion of foreign items, to a maximum of 2 marks.

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination Marking Key

https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0008/542960/2018_ACF_Written_Examination_Web-version.PDF

(b)

- (i) Use the information above to complete a Cash budget performance report for S-Bend Plumbing Pty Ltd for the month ended 31 July 2020. (11 marks)

Cash sales

Workings	Marks
52,200 (1) x 92% (1) = 48,024	1–2
Total	2

(i.e. 2 marks carried forward to Cash budget performance report)

Proceeds from sale of equipment

Workings	Marks
Carrying amount + gain = 85,000 (1) + 5,900 (1) = 90,900	1–2
Total	2

(i.e. 2 marks carried forward to Cash budget performance report)

S-Bend Plumbing Pty Ltd
Cash budget performance report
For the month ended 31 July 2020

	Budget \$	Actual \$	Variance \$	Marks
Opening bank balance	120,000	120,000	–	
Receipts				
Cash sales	52,200	48,024	4,176 U	2+1
Collections from debtors/accounts receivable	10,950	7,050	3,900 U	1
Interest on investments	600	600	–	
Proceeds from sale of equipment	81,900	90,900	9,000 F	2+1
Total cash available	265,650	266,574	924 F	
Payments				
Salesperson's salary	3,600	5,100	1,500 U	1
Administration expenses	2,700	2,500	200 F	1
Rent	6,000	6,000	–	
Freight inwards	3,750	3,750	–	
Equipment	108,000	130,000	22,000 U	1
Payments to creditors	34,920	38,900	3,980 U	1
Interest on loan	826	826	–	
Total payments	159,796	187,076	27,280 U	
Closing bank balance	105,854	79,498	26,356 U	
Total				11

Award marks only when both amount and variance are given.

Deduct 1 mark for each calculation error, to a maximum of 1 mark.

Deduct 1 mark for omitting items without a variance or including a foreign variance, to a maximum of 2 marks.

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination Marking Key

https://senior-secondary.scsa.wa.edu.au/data/assets/pdf_file/0008/542960/2018_ACF_Written_Examination_Web-version.PDF

- (ii) Identify **two** significant variances in the Cash budget performance report for S-Bend Plumbing Pty Ltd for the month ended 31 July 2020, outlining why each variance might have occurred. (4 marks)

Description	Marks
For each of two significant variances:	
Identifies the variance and outlines correctly why it might have occurred	2
Identifies the variance without outlining correctly why it might have occurred	1
Total	4
<p>Answer(s) could include but are not limited to:</p> <ul style="list-style-type: none"> • The lower than budgeted cash sales amount could be because the volume of cash sales has decreased or the sales price has been reduced, perhaps because of a more competitive market. • The lower than budgeted collections from debtors/accounts receivable amount could also be the result of lower selling prices or because of poor debt collection. • The greater than budgeted proceeds from the sale of equipment amount could be because the budgeted figure could have been based on the written down value of the equipment rather than its market value. The written down value could have been lower due to the depreciation rate applied being higher. • The greater than budgeted purchase of equipment amount could be due to a price increase in the equipment from the time that this capital investment decision was originally made. It could also be due to the equipment being purchased from overseas and the exchange rate being unfavourable. • The greater than budgeted payment to creditors/accounts payable amount could be due to increased prices being charged by suppliers. • The greater than budgeted salesperson's salary amount could be due to the salesperson being paid more: <ul style="list-style-type: none"> ○ for the volume they have sold; however, it would be expected that sales volume would also increase as a result of this ○ for the number of hours they have worked, perhaps in an attempt to increase sales. 	
Accept any other reasonable answer.	

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https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0008/542960/2018_ACF_Written_Examination_Web-version.PDF

(c) Explain the purpose of a cash budget performance report. (3 marks)

Description	Marks
Explains the purpose of a cash budget performance report	3
Provides a limited explanation of the purpose of a cash budget performance report	2
Makes a general comment about a cash budget performance report	1
Total	3
Answer(s) could include but are not limited to: <ul style="list-style-type: none"> - At the end of the budgeted period it is important to match the actual outcomes against the budgeted forecast to identify and quantify differences, both positive and negative. - The variances are examined to evaluate the quality of the planning and to assist in shaping actions and future planning. This ensures that adequate cash reserves are available to meet the business' needs, particularly for significant investments such as equipment purchases. 	
Accept any other reasonable answer.	

(d) Describe **two** possible causes an unfavourable variance in a business gross profit. (4 marks)

Description	Marks
For each of two causes:	
Describes how the cause results in an unfavourable variance in the gross profit	2
Identifies an item that can cause an unfavourable variance in the gross profit	1
Total	4
Answer(s) could include but are not limited to: <p>An unfavourable variance in a business' gross profit could be caused by:</p> <ul style="list-style-type: none"> • an increase in the cost of sales because of an increase in purchases (volume or prices), freight costs or import duties, without an accompanying increase in sales • a decrease in the volume of sales or a decrease in the sales price, without an accompanying decrease in the cost of sales. 	
Accept any other reasonable answer.	

Source: School Curriculum and Standards Authority, Accounting and Finance 2018 ATAR Examination Marking Key
https://senior-secondary.scsa.wa.edu.au/_data/assets/pdf_file/0008/542960/2018_ACF_Written_Examination_Web-version.PDF

END OF CURRENT TOPIC

Please access the other Resource Packages provided which cover other topics from Unit 3.

