**Leeming Senior High School**

**Accounting and Finance ATAR (Year 12)**

**Unit 3**

**Task 4**

**Marking Key**

**Assessment Type:**

Test

**Total Marks:**

66 marks

**Conditions:**

**Period Allowed for Completion of the Task:**

60 minutes under invigilated conditions.

**Task Weighting**

8% of the school mark for this pair of units

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**Section 1 (5 marks)**

**Answer the first 5 questions by circling the most appropriate answer.**

1 Managers use a budgeted income statement to predict

 (a) competitor’s performance.

 (b) cash flow performance.

 (c) accrual performance.

 (d) stock market performance.

2 The purpose of a cash budget is to

 (a) identify cash inflows and cash outflows of a business.

 (b) determine the actual cash on hand for a previous period.

 (c) identify revenue earned for the current period.

 (d) determine expenses incurred for the current period.

3 Performance reports

 (a) inform shareholders about the businesses’ performance.

 (b) compare actual financial performance with the budget.

 (c) should relate only to financial outcomes.

 (d) should always allocate responsibility for poor performance.

**Questions 4 and 5 relate to the following summarised cash budget for Kaanyeah Pty Ltd.**

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| **Kaanyeah Pty Ltd****Cash Budget****for the three months ending 31 December 2020** |
|  | **October****$** | **November****$** | **December****$** |
| **Opening Bank Balance** | 4 500 | (20 500) | 4 000 |
| **Estimated Receipts** |  |  |  |
| Sales | 124 000 | 135 000 | 143 000 |
| Proceeds of Bank Loan |  | 30 000 |  |
| **Total Cash Available** | **128 500** | **144 500** | **147 000** |
| **Estimated Payments** |  |  |  |
| Purchase of Inventory | 71 000 | 76 000 | 82 000 |
| Wages | 19 000 | 21 000 | 23 000 |
| Dividends |  | 40 000 |  |
| Purchase of New Equipment | 56 000 |  |  |
| Sundry Cash Expenses | 3 000 | 3 500 | 4 500 |
| **Total Payments** | **149 000** | **140 500** | **109 500** |
| **Balance at the End of the Month** | **(20 500)** | **4 000** | **37 500** |

4 This cash budget shows that in December the

 (a) company’s profitability is expected to decline.

 (b) company may have a short-term cash problem.

 (c) company’s profitability is expected to improve.

 (d) company’s cash situation is likely to improve.

5 The best solution to the company’s October cash deficit would be to

 (a) cancel the dividend.

 (b) defer payment for the equipment.

 (c) increase the amount of the bank loan.

 (d) reduce sundry cash expenses.

**Section 2 (61 marks)**

**Answer the following questions in the spaces provided.**

**Question 6 (27 marks)**

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

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| **Meeiegoes Enterprises****Income Statement****for the month ended 30 September 2020** |
|  | **$** | **$** |
| Sales |  | 242 000 |
| *Less* Cost of Sales | 156 300 |  |
|  Discount Received | 2 985 |  |
| **Gross Profit** |  | **88 685** |
| *Less* 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 $16 500 CR.
* 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.
* 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; and
	+ No changes are expected for the other items.

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

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| **Debtor’s Collection Schedule** |
| **Months** | **Total Sales****$** | **Credit Sales****(70% of Total)****$** | **October****$** | **Marks** |
| **August** | 175 000 | 122 500 | 46 550 | **3** |
| **September** | 242 000 | 169 400 | 101 640 | **3** |
| **Total** |  |  | **148 190** | **1** |

(b) Prepare the cash budget for Meeiegoes Enterprises for the month ending 31 October 2020. Round all figures to the nearest dollar. (18 marks)

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| **Meeiegoes Enterprises****Cash Budget for the month ending 31 October 2020** |
|  | **October****$** | **Workings** | **Marks** |
| Open Bank Balance 1 October 2020 | (16 500) |  | **2** |
| **Receipts** |  |  |  |
| Collections from Debtors | 148 190 |  | **1** |
| Cash Sales | 75 141 | $242 000 x 1.035 = $250 470$250 470 x 0.30 = $75 141 | **2** |
| Sale of Vehicle | 8 000 |  | **1** |
| **Total Cash Available** | **214 831** |  |  |
| **Payments** |  |  |  |
| Credit Purchases | 86 815 | $89 500 x 0.97 = $86 815 | **2** |
| Sales Commission | 12 524 | $250 470 x 0.05 = $12 524 | **2** |
| Wages | 30 000 | $32 000 - $9 000 = $23 000$23 000 + $7 000 = $30 000 | **3** |
| Other Expenses | 24 735 | $17 135 + $7 600 = $24 735 | **2** |
| Electricity | 1 800 |  | **1** |
| Capital Expenditure (Purchase of Vehicle) | 46 000 |  | **1** |
| Total Budgeted Payments | **201 874** |  |  |
| **Budgeted Cash Balance** | **12 957** |  | **1** |

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| **Marking Notes** |
| 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(eg. purchases instead credit purchases, to a maximum of 1 mark) |

(c) Explain the purpose of a cash budget performance report. (2 marks)

|  |  |
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| **Description** | **Marks** |
| Correctly, and in detail, explains the purpose of a cash budget performance report | **2** |
| Correctly explains the purpose of a cash budget performance report | **1** |
| **Answer could include, but is not limited to, the following points:** |
| * The cash budget performance report indicates the difference between the expected and actual cash balance at the end of the period, and shows which items have caused this difference.
* This will identify areas that need attention for improvement, and will ensure more accurate budgeting in the future.
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| **Total Marks** | **2** |

**Question 7 (34 marks)**

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

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| **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** | **124 810** |

**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.

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

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| **S-Bend Plumbing Pty Ltd****Budgeted Income Statement****for the two months ending 31 July 2020** |
|  | **Workings** | **Marks** |
| **Sales** | 65 250 | $52 200 (Cash) + $13 050 (Credit) =$65 250 | **2** |
| *Less* Cost of Sales | 45 072 |  | **1** |
| Freight Inwards | 3 750 |  | **1** |
| **Gross Profit** | **16 428** |  | **1** |
| *Add* **Other Operating Income** |  |  |  |
| Discount Received | 1 838 | $34 920/0.95 x 100 = 36 758 - $34 920 = $1 838 | **2** |
| Interest on Investments | 600 |  | **1** |
| **Total Income** | **18 866** |  | **1** |
| **Operating Expenses** |  |  |  |
| Salesperson’s Salary | 3 600 |  | **1** |
| Administration Expenses | 2 700 |  | **1** |
| Rent | 2 000 | $6 000/3 = $2 000 | **2** |
| Interest on Loan | 826 |  | **1** |
| Loss on Sale | 3 100 | $85 000 - $81 900 = $3 100 | **2** |
| Depreciation of Equipment | 1 212 |  | **1** |
| **Total Expenses** | **13 438** |  | **1** |
| **Budgeted Profit** | **5 428** |  | **1** |

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| **Marking Notes** |
| 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(eg. purchases instead credit purchases, to a maximum of 1 mark) |

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

* Collections from debtors/accounts receivable were $7 050.
* The salespersons salary was $5 100.
* The administration expenses were $2 500.
* Equipment was purchased and paid for with $130 000.
* Payments to creditors/accounts payable were $38 900.
* Actual cash sales were 92% of budgeted cash sales.
* The gain on the sale of the 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)

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| **S-Bend Plumbing Pty Ltd****Cash Budget Performance Report****for the month ended 31 July 2020** |
|  | **Budget****$** | **Actual****$** | **Variance****$** | **Workings** | **Marks** |
| **Opening Bank Balance** | **120 000** | **120 000** | - |  |  |
| **Receipts** |  |  |  |  |  |
| Cash Sales | 52 200 | 48 024 | 4 176 U | $52 200 x 0.92 =$48 024 | 1 |
| Collections from Debtors/Accounts Receivable | 10 950 | 7 050 | 3 900 U |  | 1 |
| Interest on Investments | 600 | 600 | - |  | 1 |
| Proceeds from Sale of Equipment | 81 900 | 90 900 | 9 000 F | $85 000 + $5 900 = $90 900 | 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 | - |  | 1 |
| Freight Inwards | 3 750 | 3 750 | - |  | 1 |
| Equipment | 108 000 | 130 000 | 22 000 U |  | 1 |
| Payments to Creditors/Accounts Payable | 34 920 | 38 900 | 3 980 U |  | 1 |
| Interest on Loan | 826 | 826 | - |  | 1 |
| **Total Payments** | **159 796** | **187 076** | 27 280 U |  |  |
| **Closing Bank Balance** | **105 854** | **79 498** | 26 356 U |  |  |

(b) (ii) Identify two (2) significant variances in the cash budget performance report of S-Bend Plumbing Pty Ltd for the month ended 31 July 2020, outlining why each variance might have occurred. (4 marks)

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| **Description** | **Marks** |
| Correctly identifies two (2) significant variances in the cash budget performance report, and outlines why each variance might have occurred in detail | **4** |
| Correctly identifies two (2) significant variances in the cash budget performance report, and outlines why one of the variances might have occurred | **3** |
| Correctly identifies one (1) significant variance in the cash budget performance report, and outlines why the variance might have occurred in detail | **2** |
| Correctly identifies one (1) significant variance in the cash budget performance report | **1** |
| **Answer could include, but is not limited to, the following points:** |
| * Cash sales were $4 176 less than the budget. This would have been either as a result of less sales made than expected or lower prices being charged because of greater competition.
* Collections from debtors were $3 900 below budget. Assuming that the budgeted figure was the debtors’ balance at the end of June, the underbudget could only be a result of debtors not paying within the 30 days as required.
* Proceeds from the sale of the equipment was $9 000 higher than budget, presumably because the company was able to negotiate a better price or found a new and more enthusiastic buyer for the old equipment.
* Salesperson’s salary was $1 500 over budget presumably either as a result of the employee having to work longer hours in an attempt to generate more sales, or the employee having received a large and unexpected salary increase.
* Equipment has cost $22 000 more than budget, either because more equipment than originally planned was purchased, or because the price of the equipment turned out to be higher than expected.
* Payments to creditors is $3 980 higher than budgeted, either because more goods have been purchased (unlikely, given the lower than budgeted sales) or an increase in the price of the goods.
 |
| **Total Marks** | **4** |