**Budgeting**

***Topic Test***

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| **Student Name:** |  | **CG:** |  |

**Time allowed:** 1 hour

**Material required/recommended for this assessment**

To be provided by the supervisor

This Question/Answer Booklet

To be provided by the candidate

*Standard Items:* Pens, pencils, eraser or correction fluid, ruler

*Special Items:* Non-programmable calculators satisfying the conditions set by the School

 Curriculum and Standards Authority for this course

**Marking Key**

|  |  |  |
| --- | --- | --- |
| Question | **Marks Allocated** | **Marks****Gained** |
| **Multiple Choice** | 5 |  |
| **6** | 15 |  |
| **7** | 25 |  |
| **8** | 10 |  |
| **Total** | **55** |  |

**Multiple Choice**

Each question has only one correct response. Signify your answer by circling the label (**a**, **b**, **c** or **d**) of the correct response. If you change your answer, completely erase your original answer. Questions where two or more responses are selected will score no marks.

1. If budgeted profit is greater than actual profit, the result is:

* 1. positive because actual income is greater than actual expenses.
	2. negative because actual income is less than actual expenses.
	3. positive because actual cash received is greater than cash paid.
	4. negative because actual cash received is less than cash paid.

2. Non-financial performance measures:

* 1. should not be used in a system to reward management performance
	2. are normally impossible to assess
	3. are seldom important in evaluating management performance
	4. might include customer satisfaction, product quality and staff morale

3. The master budget for a business:

* 1. is prepared by the firm’s senior management
	2. is distinct from the firm’s operational budgets
	3. includes all estimates except capital expenditure
	4. consists of all the interrelated financial and operating budgets

**Marvel Limited** has produced the following cash budget for the period July to September 2021:

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| --- | --- |
|  | **$** |
| Cash balance at 30 June 2021 | 45,000 |
| *Estimated Receipts* |  |
| Receipts from customers | 860,000 |
| Proceeds from sale of assets | 35,000 |
| **Total cash available** | 940,000 |
| *Estimated Payments* |  |
| Payments to suppliers | 705,000 |
| Purchase of assets | 120,000 |
| General expenses | 50,000 |
| Interest on loan | 5,000 |
| Repayment of loan | 45,000 |
| **Total payments** | 925,000 |
| Cash balance at 30 September 2021 | 15,000 |
|  |  |

4. Based on the information above, which of the following statements is true?

1. Marvel Limited will not need to arrange an overdraft during the budget period
2. The business is expected to be profitable during the budget period
3. The business will make a loss on the sale of assets
4. All of the above are true

5. Of the items listed in the cash budget above, which two items will also appear in the Budgeted Income Statement?

1. Receipts from customers and payments to suppliers
2. Interest on loan and general expenses
3. Interest on loan and repayment of loan
4. Proceeds from sale of assets and purchase of assets

**( /5 marks)**

**Application Questions**

1. The following information has been provided by the owner of **Sector 7 Enterprises**:

The business’s opening cash balance at 1 May 2021 is $9,000. Over the next three months the business expects to have monthly wages of $3,000 and monthly office expenses of $700. The June quarterly bills will be utilities costs of $1,500 and rent of $6,000.

The business is planning to purchase a new computer for $5,500 cash on 1 June and this is to be depreciated at 35% pa straight line.

Sales at the beginning of the year were as follows:

* January $13,000
* February $12,000
* March $15,000
* April $ 8,000

Estimated sales are $12,000 per month. Analysis of the results from the beginning of the year has revealed that 60% of sales are for cash. Of the credit sales, 50% are paid the month following sale, 30% two months after sale and the remainder in the third month after sale.

Inventory purchases are made on credit and are paid for the month after. This attracts a 3% discount. In the first four months of the year $6,000 was purchased each month.

Estimated purchases for the next three months are as follows:

* May $ 8,000
* June $12,000
* July $ 9,000

**Workings**6. cont

*You are required to:*

1. Prepare a Schedule of Collections from Debtors for the business for the quarter ending

31 July 2021.

**Schedule of Collections from Debtors**

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**( /3 marks)**

6. cont

1. Prepare a Cash Budget for the business, showing separately the months of May, June and July.

**Sector 7 Enterprises**

**Cash Budget**

**For quarter ending 31 July 2021**

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**( /12 marks)**

7. **Donald Quarries** is a large earthmoving and soil supplies contractor operating in the hills near Perth. The firm has a regular cash budgeting system in place and the General Manager is suggesting that it might be a good idea to prepare a Budgeted Income Statement as well. Use the Cash Budget given below for the next three months and the additional information to answer the following questions:

**Donald Quarries**

**Cash Budget for the 3 months October – December 2021**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **OCTOBER** | **NOVEMBER** | **DECEMBER** |
| Opening balance | 17 600 | 142 600 | 6 600 |
| **Receipts**Accounts receivable | 221 000 | 240 000 | 235 000 |
| Proceeds of sale of shares |  | 20 000 |  |
| Total cash available | 238 600 | 402 600 | 241 600 |
| **Payments**Fuel | 15 000 | 19 000 | 17 000 |
| Wages | 55 000 | 75 000 | 65 000 |
| Interest payment |  |  | 6 000 |
| Loan repayment |  |  | 100 000 |
| Purchase of truck |  | 250 000 |  |
| Electricity payment | 24 000 |  |  |
| Other cash expenses | 18 000 | 20 000 | 20 000 |
| Owners’ drawings | 8 000 | 8 000 | 8 000 |
| Total estimated payments  | 96 000 | 396 000 | 285 000 |
| Budgeted closing balance | 142 600 | 6 600 | (43 400) |

**Additional information**

* Fees and sales are all on credit and collected in the month following the service or sale. Fees/sales for December are estimated to be $220 000.
* Electricity accrued in December is anticipated to be $525.
* The purchase price of the shares was $25 000.
* All business assets are predicted to depreciated at a rate of $18 000 per month.
* The annual insurance premium of $84 000 was paid on 1/7/21.
* Interest is accrued and paid quarterly.
* All other expenses included in the cash budget are paid in the month to which they relate.

**Required:**

(a) Prepare a budgeted Income Statement for the firm for the three month period ended

 31 December 2021.

**WORKINGS:**

 **Donald Quarries**

 **Budgeted Income Statement**

 **For the three months ended 31 December 2021**

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**( /17 marks)**

(b) Explain the purpose of budgets and the benefits that a business like Donald Quarries might expect from them.

 **( /4 marks)**

(c) At the executive level, planning decisions about products and services are made that may include product *cost leadership* or product *differentiation* strategies.

Explain the difference between these two strategies.

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**( /4 marks)**

8. **Polaris Traders** provides you with the following Performance Report.

**Polaris Traders**

**Budgeted Income Statement Performance Report**

**For year ended 30 June 2017**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Budgeted | Actual | Variance |
| Sales | 796,000 | 752,000 |  |
| Cost of sales | 469,500 | 436,500 |  |
| **Gross Profit** | 326,500 | 315,500 |  |
|  |  |  |  |
| **Operating Expenses** |  |  |  |
| Wages | 144,000 | 147,600 |  |
| Other expenses | 105,000 | 105,000 |  |
| Interest | 5,000 | 5,000 |  |
| Insurance | 7,500 | 7,500 |  |
| Depreciation | 8,500 | 8,500 |  |
| **Total expenses** | 270,000 | 273,600 |  |
| **Profit for the period** | $56,500 | $41,900 |  |

*Required:*

1. Complete the **variance** column in the Performance Report.

**( /5 marks)**

8. cont

1. Comment on the results of the Performance Report prepared above.

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**( /5 marks)**

**End of Topic Test!**