

# [Budgeting and forcasting](https://assignbuster.com/budgeting-and-forcasting/)

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Budgeting and Forecasting Name: Course: Institution: Instructor: Date: Budgeting ad Forecasting Question 1) There are several budgets within an organization for the management to use. Cash budget is one of the important budgets, which is concerned with planning and control of cash. It considers inflow and outflow of cash for a specific period. The cash budget plays a hugely significant role of helping the management in maintaining a rational cash balance in relation to its needs. This is important since it helps the management in eliminating idle cash a well as shortages. A cash budget has four sections, which are the receipts section that contains the cash received from customers among other receipts. The other section is the disbursement section, concerned with cash that is paid out by the company for several purposes. The following part is the cash surplus/deficit, which shows the difference between the cash paid and received.

Then follows the last part, which is a financial section concerned with accounting for cash borrowing and repayments expected in the period. Question 2) Part a) The stakeholders in this decision are the mangers and employee in the marketing department considering it is the whole department that is supposed to make decisions on such matters. Therefore, all employees and managers within the marketing department are stakeholders in this decision and should be involved. Part b) It is ethical for Judy to revise the costs as advised by the other manager, considering the decision is supposed to be for the whole department and having people contribute concerning ways of analyzing the project is right. However, if the company has clear indicating that such costs should be considered as fixed, Judy had no ethical right to revise the costs. Part c) Judy should first consult the costing management concerning accounting for such costs as fixed or variable.

In addition, she can place both methods for the overall management to consider whether to classify the costs as variable or fixed in order to make a decision concerning the project. Question 3) Part a) Payback period for project red Initial outlay = $400, 000 Cash flow yr 1 to 8 = $100, 000 Cumulative cash flow at year 4 = $400, 000. The payback period for project red = 4 years. Payback period for project blue Initial outlay = $ 560, 000 Annual cash flow =$150, 000 Cumulative cash flow before payback = $450, 000 at the third year Pp = ($560, 000- $450, 000)/ $150, 000 = 0. 7 years Payback period for project blue = 3. 7 years. Part B) Net present value project red Cash flow $PVIFPVInitial outlay(400, 000)1(400, 000)Year 1100, 0000. 925992, 590 2100, 0000.

857385, 730 3100, 0000. 793879, 380 4100, 0000. 734973, 490 5100, 0000. 680568, 050 6100, 0000. 630163, 010 7100, 0000.

583458, 340 8100, 0000. 540154, 010NPV = 174, 600 Net Present Value project blue Cash flow $PVIFPVInitial outlay(560, 000)1(560, 000)Year 1150, 0000. 9259138, 885 2150, 0000. 8573128, 595 3150, 0000. 7938119, 070 4150, 0000.

7349110, 235 5150, 0000. 6805102, 075 6150, 0000. 630194, 515 7150, 0000. 583487, 510 8150, 0000. 540181, 015NPV = 301, 900 Part c) Accounting rate of return Project red Average annual income = $50, 000 ARR = 50, 000 ? 100 400, 000 = 12.

5% Project blue Average annual income = $80, 000 ARR = 80, 000 ? 100 560, 000 = 14. 3% Part d) According to the calculation above, it is obvious that project blue should be taken, considering it has a higher Net Present Value, a shorter payback period, and a higher Accounting Rate of Return. Question 4) The expected receipts of October include 18% for sales of August, 50% for sales of September, and 30% sales for October. August = $43, 200 September =$ 135, 000 October = $ 99. 000 Total == $ 277, 200 Question 5) Sales volume variance Sales volume variance using the formula, ((actual sale – budgeted sale) budgeted price) Product a = (6, 810 – 6, 000) $8 == $6, 480 favorable Product b == (4, 720 – 5, 000) 10 == $ 2, 800 unfavorable Sales price variance Product a) Budgeted revenue is 6, 000 \* 8 = $48, 000 Actual revenues 6, 810 \* 7. 80= $50, 394 Price variance 50, 394 – 48, 000 = $2395 Product b) Budgeted revenue is 5000 \* 10 = $50, 000 Actual revenue 4720\* 10. 40= $49, 088 Price variance 49, 088 – 50, 000= $912 Total sales variance Budgeted total sales = $49, 000+ $50, 000 = $99, 000 Actual total sales = $50, 394 + $49088 = $99, 482 Total variance sales = $99, 482- 99, 000 = $482 favorable Question 6) Variable costs Highest cost = $2, 900 Lowest cost = $ 2, 000 2, 900- 2000= $900 Calls for these months 2, 500 – 1, 500 = 1, 000 calls $900 ? 1, 000 calls = $ 0. 9 per call Variable cast = $0. 9 Fixed costs Fixed costs = total costs – variable costs Variable costs for highest records = $ 0. 9 ? 2, 500 = $2, 250 Variable costs for lowest records = $ 0. 9 ? 1, 500 = 1, 350 Fixed costs for highest records = $2, 900 – 2, 250 = $650 Fixed costs for lowest records = $2, 000 – 1, 350 = $650 The fixed costs of the calls == $650