

Budgeting and forecasting

[Business](#), [Accounting](#)



Budgeting and Forecasting Name: Course: Institution: Instructor: Date:

Budgeting and 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 as 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 managers 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 = $50, 000 \div 100 \div 400, 000 = 12$.

5% Project blue Average annual income = \$80,000 $ARR = \frac{80,000}{100}$

$\frac{560,000}{14.3\%}$ 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 $50,394$

$- 48,000 = \$2,394$ 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 = $\$50,394 + \$49,088 = \$99,482$ 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 \div 1,000 \text{ calls} = \0.9 per call

Variable cost = \$0.9 Fixed costs Fixed costs = total costs – variable costs

Variable costs for highest records = $\$0.9 \div 2,500 = \$2,250$ Variable costs

for lowest records = $\$0.9 \div 1,500 = 1,350$ 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