Budgeting case study

[Business](), [Management]()

Part I

Answer 1

It is a static budget in since the planner had already set the expenses together with the expected revenues. The fees each student was to pay had already been determined and accounted for. Each student was required to pay, the estimated grants to expect and the expenses that would go to salaries, purchase of equipment and other miscellaneous expenses.

Answer 2

The total revenues for the 120 students less grants was 802, 567-(50, 000+10, 000+5, 000+10, 000) = 727, 000. Total revenue per student727, 000/120= 6058. 3333. The total revenue less grants for the 100 students was: 681, 306-(50, 000+10, 000+5, 000+10, 000) = 506, 306. Total revenue per student: 506, 306/100= 5063. 06. The total revenue for the 66 students less grants was: 475, 162-(50, 000+10, 000+5, 000+10, 000) = 400, 162. Total revenue per student: 400, 162/66= 6063. 0606

Answer 3

The total expenses per student for 120 students group was: 4, 518. The total expenses per student for 100 students group was: 5, 283. The total expenses per student for 66 students group was: 7, 646.

Answer 4

All the expenses are necessary because it is the expenses that make it possible to determine the viability of a profitable venture. If the expenses supersede the revenues, then it is not worth getting into the business. If the revenues supersede the expenses, then it is worth investing. The expenses per student are necessary because it shows the average expenses of each student. It would provide a rough estimate on the expenses the institution can incur per student.

Answer 5

The school is viable in that it is making profit in its activities. The net worth of the school is increasing as students increase because the more the students the more the profits as shown by the above analysis for a viable business venture. The expectation is that as the years go by, the total number of students continue to increase, therefore, the long run profit is going to increase though at a decreasing rate because the diseconomy of scale start to set in.

The break-even analysis is used to determine when the business is going to cover all its expenses and start making profits. At this point, break-even point, the business is not making any profit: revenues equal profits. Beyond this point, the business' expenses would be less than the revenues and, therefore, the business start making profits. Below this point, the business is operating at a loss.

Break-even analysis

The total variable costs are: Staff development(100)+field trips(40)+instructional material and equipment(150)+instructional supplies(60)+printing and copying(98)+food service(246. 50)= 694. 50. The total fixed expenses are given by: Total expenses per student –variable expense per student. For 120 students it is:(4518 - 694. 50) = 3823.

50*120= 458820The total revenue less variable costs: 6058. 3333 - 694. 50 = 5363. 8333The school will break-even with: 458820/5363. 8333= 85studentsFor 100 students, it is:(5283 - 694. 50) = 4588. 50*100= 458850The total revenue less variable costs: 5063. 06 - 694. 50 = 4368. 56The school will break-even with: 458850/4368. 56= 105 studentsFor 66 students, it is:(7646 - 6794. 50)66 = 6951. 50*66= 458799The total revenue less variable costs: 6063. 0606 - 694. 50 = 5368. 5606The school will break-even with: 458799/5368. 5606= 85 students. From the above break-even analysis, we can infer that if the school was to break even at 105 students since they are the majority.

Answer 6

The general advantages of preparing the budget are that it helps the management estimate the cost it is going to incur during the operation process. It also helps to determine the break-even point of the project. The budget can also be used to forecast the cost benefit analysis of the project or predetermine the net present value of the project.

Answer 7

It budget is a good way to determine the area in the school that is not performing to the required capacity. If the students decrease in the number and it means that the school would run at a loss and, therefore, the management would get better ways of determining the best ways to increase the number of students. At the same time, the budget would enable the management to avoid having many students to avoid diseconomy of scale.

Part II

Answer 1

Variance is the difference between the expected or planned amount and the actual amount. Variance analysis would try to explain the reasons for the difference between the expected and the actual number. Advantages of variance analysis are that it allows the manager to predict and foresee the budgeting of the project and get a clear view of the same. I this case the non performing sector is easily identified. Second is that it allows the organization holds managers accountable for whatever they do. In this case, the managers would answer the question why the set target was not met. Disadvantages of using variance analysis are that the raw data may sometimes be exaggerated and, therefore, end up providing a biased impression of the expected value. If this value is not met, then the management is held accountable. Secondly, the data so used might not have been based on grounded research methodology and, therefore, may end up providing a biased impression of the expectations in an organization. Answer 2

There is no other superior way of analyzing a budget for an organization than analysis of variance despite its disadvantages.

References

BANERJEE, B. (2006). COST ACCOUNTING: THEORY AND PRACTICE. Ohio: Shawna Publishers.

Steve Jackson, . S. (2008). Managerial Accounting: A Focus on Ethical Decision Making. Canada: Cengage Publishers.