Accounting Units 1 & 2

Chapter 17 Budgets

Aboriginal and Torres Strait Islander content has been excluded as accuracy cannot be guaranteed, and it is better to be respectful than cover the entire curriculum inaccurately.

Significant effort has been made to ensure this content is legal. Please send any areas of concern to admin@vwx.au with appropriate document/legal references so errors can be verified and changes be made.

Contents

Section	Page
17A The budgeting process and the Budgeted Cash Flow Statement	2
17B The Budgeted Cash Flow Statement over consecutive periods	27
17C The Budgeted Income Statement and Balance Sheet	47
17D Variance reports	69

Chapter 17 Budgets — 17A The budgeting process and the Budgeted Cash Flow Statement

Theory

Every report met so far in this course looks **backwards**: the Income Statement, the Cash Flow Statement and the Balance Sheet all record what has **already happened**. A successful business, though, also has to look **forwards** — to plan the cash it will collect, the inventory it will buy, the assets it will replace and the loans it must repay, *before* the period begins. The tool for doing this is a **budget**.

A **budget** is a **financial plan for a future period**, prepared before that period begins, that expresses management's expectations in dollars. **Budgeting** is the process of preparing those budgets. A budget is not a guess written on the back of an envelope: it is built from the business's **past records** and its **known plans**, and it takes the same disciplined form as the historical reports — so a **Budgeted Cash Flow Statement** is laid out exactly like the Cash Flow Statement of Chapter 12 and 15, but every figure in it is an **expected** figure rather than a recorded one.

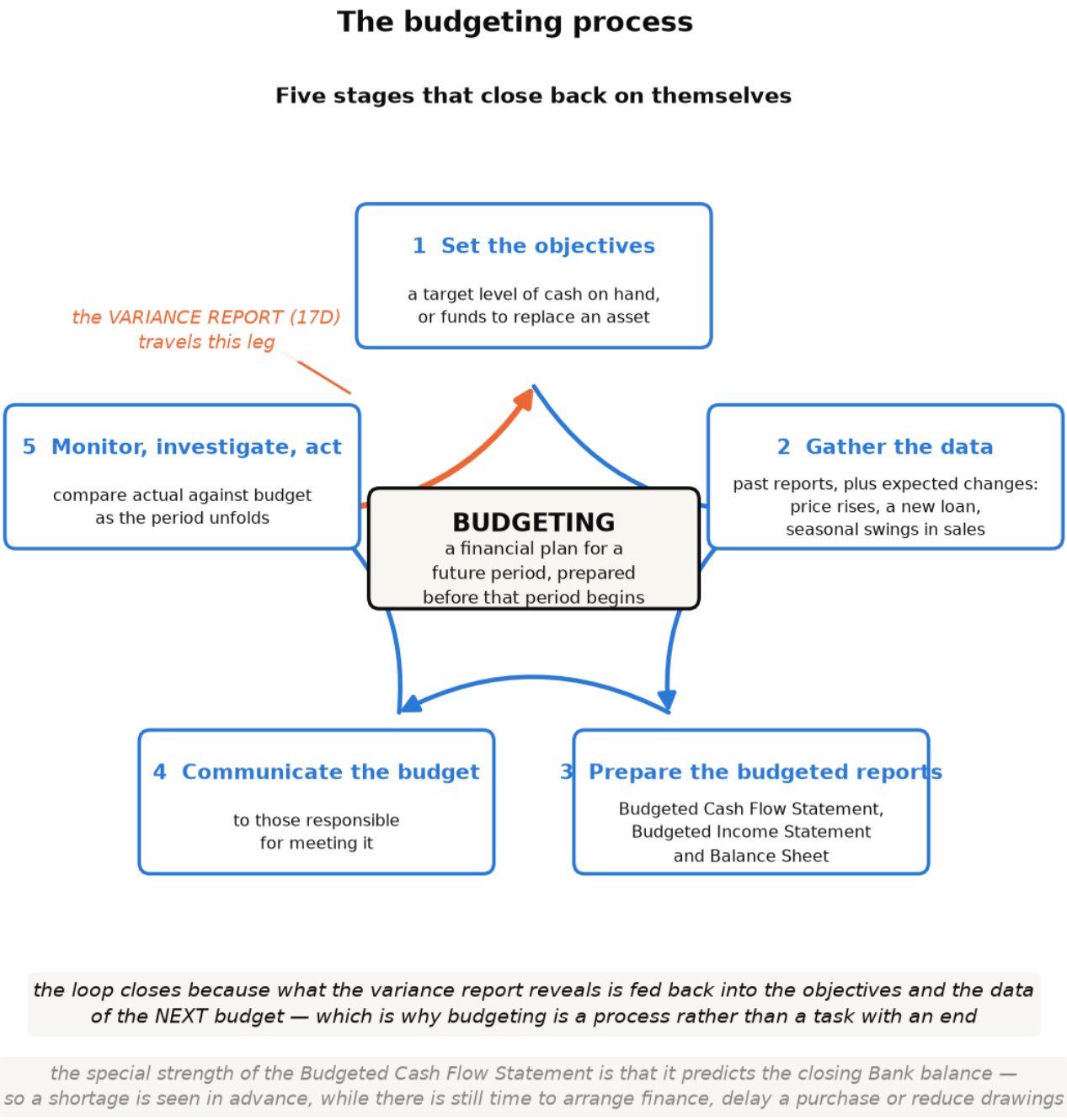
The purpose and benefits of budgeting. Preparing budgets helps the owner in several distinct ways:

- **Planning ahead.** A budget forces the owner to think through the period's activities and translate them into dollars, so nothing important is left to chance.
- **Setting targets.** A budget states measurable goals — an expected level of sales, of expenses, of cash — that give the business and its staff something concrete to aim for.
- **Anticipating cash shortages and surpluses.** This is the special strength of the **Budgeted Cash Flow Statement**. Because it predicts the closing **Bank** balance, it can warn the owner *in advance* that the business will run **short of cash** — allowing time to arrange a loan or overdraft, delay buying an asset, reduce drawings or chase debtors earlier — or that it will hold a large **surplus** that could be invested or used to repay debt.
- **Aiding decisions.** With the expected figures in front of them, the owner can decide **when** to buy a new vehicle, **whether** the business can afford a planned expansion, or **how much** the owner can safely withdraw.
- **Providing a benchmark for evaluation.** Once the period is over, the **actual** results are compared with the budget in a **variance report** (Section 17D), so the owner can see where performance beat or missed the plan and take **corrective action**.

The budgeting process. Preparing a budget follows an orderly sequence:

1. **Set the objectives** for the period — for example, a target level of cash on hand, or the funds needed to replace an asset.
2. **Gather the data** — the business's **past financial reports** (a reliable starting point, because next period usually resembles the last) together with **expected changes**: planned price rises, a new loan, a large asset purchase, seasonal swings in sales, or a change in how quickly debtors are expected to pay.
3. **Prepare the budgeted reports** — the **Budgeted Cash Flow Statement** (this section), and the Budgeted Income Statement and Budgeted Balance Sheet (Section 17C).
4. **Communicate the budget** to those responsible for meeting it.
5. **Monitor** the actual results against the budget as the period unfolds, **investigate** any material differences, and **act** on them — feeding what is learned back into the next budget.

Although the stages are numbered, budgeting does not stop at stage 5. What the monitoring reveals becomes an input to the objectives and the data of the *next* budget, so the five stages form a **loop**:



The budgeting process — five stages that close back on themselves

The leg picked out in orange is the one the **variance report** of Section 17D travels along: it sets the actual results against the budget, and what it exposes — an over-optimistic sales target, an expense allowance that was never realistic — is what makes the next budget better than the last. This is why budgeting is described as a **process** rather than a task with an end.

Preparing the Budgeted Cash Flow Statement. The Budgeted Cash Flow Statement reports **expected cash only**, classified into the same three activities used for the historical statement:

- **Operating activities** — the cash effects of expected day-to-day trading: **expected cash sales**, **expected receipts from Accounts Receivable** and **GST received** (inflows), and expected payments for **cash purchases of inventory**, **payments to Accounts Payable**, **wages**, **rent**, **advertising**, **interest expense** and **GST paid** (outflows). Buying inventory is an operating activity, so the expected cash paid for inventory is an **operating outflow**.
- **Investing activities** — expected cash to **buy**, or **from selling**, **non-current assets** (shop fittings, vehicles, equipment).
- **Financing activities** — expected cash with the owner and lenders: planned **capital contributions** and **loans to be received** (inflows), and planned **drawings** and **loan (principal) repayments** (outflows).

Each activity is subtotalled — **Net cash from Operating activities**, **Net cash used in Investing activities**, **Net cash from Financing activities** — and the three re-sum to the **budgeted net increase or decrease in cash**. Adding this to the opening **Bank** balance gives the **budgeted closing Bank balance**, so the report always **reconciles**:

Budgeted closing Bank = opening Bank + budgeted net change in cash

Outflows are shown in **brackets**. A **negative** budgeted closing balance is an expected **bank overdraft** (a current liability) — the single most important early warning a Budgeted Cash Flow Statement can give, because the owner sees it **before** the period starts and still has time to act.

Where the GST sits (same rules as the historical statement). GST received and **GST paid** are **Operating** flows, and they carry only the GST expected to move **in cash** — on expected **cash** sales, **cash** purchases, cash expenses that bear GST (**rent**, **advertising**) and non-current assets bought or sold **for cash**. An expected **receipt from Accounts Receivable** or **payment to Accounts Payable** is a single **GST-inclusive** cash amount, so it is shown **without** a separate GST line (the GST was recorded when the credit sale or purchase was first invoiced). A non-current asset appears in Investing at its **GST-exclusive** cash amount, with its GST included in Operating GST paid (on a purchase) or GST received (on a cash disposal).

The benefits are real, but so are the limits. A budget is only ever an **estimate** built on **assumptions** — expected sales, expected collection patterns, expected prices — and if those assumptions prove wrong the budget will be inaccurate. Preparing and monitoring budgets also **takes time and effort**, and a budget that is filed away and never compared with the actual results delivers **no** benefit at all. The value comes from preparing the budget **realistically**, then **using** it: comparing, investigating and acting.

Ethical considerations. Because a Budgeted Cash Flow Statement is often shown to a **lender** assessing a loan application, and is always used by the **owner** to make decisions, it should be a **realistic, unbiased, good-faith estimate** — the forward-looking counterpart of a **faithful representation**. Two temptations arise. The first is to present an **over-optimistic** budget — inflating expected sales and receipts, or quietly omitting a large planned drawing or asset purchase — so that the Budgeted Cash Flow Statement shows far more cash than the owner genuinely expects, in order to obtain finance the business cannot really support. This is misleading: the lender, relying on figures the owner has no honest expectation of achieving, may advance money that cannot be repaid, harming the lender and, ultimately, the business and its reputation. The opposite temptation is to build in **deliberately easy** targets — padding expected costs and understating expected sales — so that the **actual** results are certain to look favourable against the budget, flattering the owner's later performance and defeating the purpose of the variance report. Ethical budgeting sets targets the owner **genuinely believes are achievable**, discloses the **expected cash position honestly** — including a forecast shortfall — and uses the budget to plan, not to impress or to deceive.

Worked model. Kelvin Grove Homewares sells and buys homewares for cash and on credit, and expects a **Bank** balance of $8 000 on 1 July 2025. For July it plans: **cash sales of $50 000 (plus $5 000 GST)**; **receipts from Accounts Receivable of $33 000** (GST-inclusive); **cash purchases of inventory of $30 000 (plus $3 000 GST)**; **payments to Accounts Payable of $22 000** (GST-inclusive); **wages $8 000**, **rent $2 500 (plus $250 GST)**, **advertising $800 (plus $80 GST)** and **interest expense $300**. It also plans to buy **shop fittings for $6 000 (plus $600 GST)**, to receive a **$4 000 capital contribution** and a **$10 000 loan from Metro Finance**, and to pay **$3 000 drawings** and a **$1 000 loan repayment**.

The **GST received** line carries only the $5 000 on the cash sales — the GST on the credit sales is already inside the $33 000 expected receipts. The **GST paid** line is $3 000 (inventory) + $250 (rent) + $80 (advertising) + $600 (fittings) = **$3 930**.

Budgeted Cash Flow Statement for the month ending 31 July 2025

Kelvin Grove Homewares	$	$
Operating activities		
Cash sales	50 000	
Receipts from Accounts Receivable	33 000	
GST received	5 000	

Kelvin Grove Homewares	$	$
Cash purchases of inventory	(30 000)	
Payments to Accounts Payable	(22 000)	
Wages	(8 000)	
Rent expense	(2 500)	
Advertising	(800)	
Interest expense	(300)	
GST paid	(3 930)	
Net cash from Operating activities		**20 470**
Investing activities		
Purchase of shop fittings	(6 000)	
Net cash used in Investing activities		**(6 000)**
Financing activities		
Capital contribution	4 000	
Loan – Metro Finance	10 000	
Drawings	(3 000)	
Loan repayment	(1 000)	
Net cash from Financing activities		**10 000**
Budgeted net increase in cash		**24 470**
Add: Bank balance at start (1 July)		8 000
Budgeted Bank balance at end (31 July)		**32 470**

The three subtotals ($20 470 − $6 000 + $10 000) re-sum to the **$24 470** budgeted net increase in cash, and $8 000 + $24 470 = **$32 470**, the budgeted closing Bank balance. Kelvin Grove can enter July confident of a healthy cash position; had the statement instead pointed to an overdraft, the owner would know now — with time to respond.

Worked examples (scaffolded)

Example 1 — preparing a Budgeted Cash Flow Statement from planned data

Aspley Trading expects a **Bank** balance of $5 000 on 1 August 2025. For August it plans: **cash sales $44 000 (plus $4 400 GST)**; **cash purchases of inventory $26 000 (plus $2 600 GST)**; **wages $6 500**, **rent $2 000 (plus $200 GST)** and **advertising $600 (plus $60 GST)**; the **cash purchase of equipment $7 000 (plus $700 GST)**; a **$5 000 capital contribution** and a **$4 000 loan from Riverbank**; and **drawings $2 500**. Prepare the Budgeted Cash Flow Statement.

Working	Comment
Classify each flow: cash sales, GST, cash purchases, wages, rent, advertising and GST paid → **Operating**; equipment → **Investing**; capital, loan and drawings → **Financing**.	The three activities are exactly those of the historical statement — only the figures are *expected*.
GST received = $4 400 (on the cash sales). **GST paid** = $2 600 + $200 + $60 + $700 = **$3 560**.	GST paid gathers the GST on the inventory, rent, advertising *and* the equipment; the equipment's own cost sits in Investing.

Working	Comment
Operating: in \$44 000 + \$4 400 = \$48 400; out \$26 000 + \$6 500 + \$2 000 + \$600 + \$3 560 = \$38 660 → **Net Operating \$9 740**.	Expected cash purchases of inventory is the largest operating outflow.
Investing (\$7 000); **Financing** \$5 000 + \$4 000 − \$2 500 = **\$6 500**.	The equipment is shown GST-exclusive; its \$700 GST is already in Operating GST paid.
Net change = \$9 740 − \$7 000 + \$6 500 = **\$9 240**; closing Bank = \$5 000 + \$9 240 = **\$14 240**.	The three subtotals re-sum to the net change; opening plus net change is the closing balance.

Budgeted Cash Flow Statement for the month ending 31 August 2025

Aspley Trading	\$	\$
Operating activities		
Cash sales	44 000	
GST received	4 400	
Cash purchases of inventory	(26 000)	
Wages	(6 500)	
Rent expense	(2 000)	
Advertising	(600)	
GST paid	(3 560)	
Net cash from Operating activities		**9 740**
Investing activities		
Purchase of equipment	(7 000)	
Net cash used in Investing activities		**(7 000)**
Financing activities		
Capital contribution	5 000	
Loan – Riverbank	4 000	
Drawings	(2 500)	
Net cash from Financing activities		**6 500**
Budgeted net increase in cash		**9 240**
Add: Bank balance at start (1 August)		5 000
Budgeted Bank balance at end (31 August)		**14 240**

Example 2 — a budget that predicts an overdraft, and what the owner does about it

Nerang Hardware expects a **Bank** balance of \$3 000 on 1 September 2025. For September it plans: **cash sales \$40 000 (plus \$4 000 GST)**; **receipts from Accounts Receivable \$14 000** (GST-inclusive); **cash purchases of inventory \$24 000 (plus \$2 400 GST)**; **payments to Accounts Payable \$16 000** (GST-inclusive); **wages \$6 000**, **rent \$1 800 (plus \$180 GST)**, **advertising \$500 (plus \$50 GST)** and **interest expense \$200**; and the **cash purchase of a delivery van for \$25 000 (plus \$2 500 GST)**. It also plans **drawings \$2 500** and a **\$1 200 loan repayment**. Prepare the Budgeted Cash Flow Statement and advise the owner.

Working	Comment
GST received = $4 000 (cash sales only). **GST paid** = $2 400 + $180 + $50 + $2 500 = **$5 130**.	The $14 000 receipts and $16 000 payments are GST-inclusive lumps — no separate GST line.
Operating: in $40 000 + $14 000 + $4 000 = $58 000; out $24 000 + $16 000 + $6 000 + $1 800 + $500 + $200 + $5 130 = $53 630 → **Net Operating $4 370**.	Trading is expected to generate cash — a positive operating result.
Investing ($25 000) — the van. **Financing** −$2 500 − $1 200 = **($3 700)**.	The large planned van purchase dwarfs the operating inflow.
Net change = $4 370 − $25 000 − $3 700 = **($24 330)**; closing Bank = $3 000 − $24 330 = **($21 330)**.	A **negative** closing balance — a budgeted **bank overdraft**.

Budgeted Cash Flow Statement for the month ending 30 September 2025

Nerang Hardware	$	$
Operating activities		
Cash sales	40 000	
Receipts from Accounts Receivable	14 000	
GST received	4 000	
Cash purchases of inventory	(24 000)	
Payments to Accounts Payable	(16 000)	
Wages	(6 000)	
Rent expense	(1 800)	
Advertising	(500)	
Interest expense	(200)	
GST paid	(5 130)	
Net cash from Operating activities		**4 370**
Investing activities		
Purchase of delivery van	(25 000)	
Net cash used in Investing activities		**(25 000)**
Financing activities		
Drawings	(2 500)	
Loan repayment	(1 200)	
Net cash used in Financing activities		**(3 700)**
Budgeted net decrease in cash		**(24 330)**
Add: Bank balance at start (1 September)		3 000
Budgeted Bank balance at end (30 September)		**(21 330)**

The budget's message is clear and timely: although the day-to-day trading is expected to be cash-positive ($4 370), the planned $25 000 van purchase would drive the Bank to a **$21 330 overdraft**. Because Nerang sees this **before** September begins, the owner can act — for example **arrange finance** (a loan or an approved overdraft facility) to

fund the van, **defer** the purchase to a stronger month, or **buy a cheaper van** — rather than discovering the shortfall only when a payment bounces.

Worked examples (unscaffolded)

Example 3 — a Budgeted Cash Flow Statement for a cash trading firm

Beckett Sports expects a **Bank** balance of $6 000 on 1 October 2025 and plans to trade for cash. For October it plans: **cash sales $52 000 (plus $5 200 GST)**; **cash purchases of inventory $30 000 (plus $3 000 GST)**; **wages $7 500**, **rent $2 400 (plus $240 GST)**, **advertising $700 (plus $70 GST)** and **interest expense $250**; the **cash purchase of shop fittings $9 000 (plus $900 GST)**; a **$6 000 capital contribution** and an **$8 000 loan from Coastal Bank**; and **drawings $3 000** and a **$1 500 loan repayment**. Prepare the Budgeted Cash Flow Statement.

GST received = $5 200; GST paid = $3 000 + $240 + $70 + $900 = $4 210. Net Operating = ($52 000 + $5 200) − ($30 000 + $7 500 + $2 400 + $700 + $250 + $4 210) = $57 200 − $45 060 = $12 140. Net Investing = ($9 000). Net Financing = $6 000 + $8 000 − $3 000 − $1 500 = $9 500. Net change = $12 140 − $9 000 + $9 500 = $12 640; closing Bank = $6 000 + $12 640 = $18 640.

Budgeted Cash Flow Statement for the month ending 31 October 2025

Beckett Sports	$	$
Operating activities		
Cash sales	52 000	
GST received	5 200	
Cash purchases of inventory	(30 000)	
Wages	(7 500)	
Rent expense	(2 400)	
Advertising	(700)	
Interest expense	(250)	
GST paid	(4 210)	
Net cash from Operating activities		**12 140**
Investing activities		
Purchase of shop fittings	(9 000)	
Net cash used in Investing activities		**(9 000)**
Financing activities		
Capital contribution	6 000	
Loan – Coastal Bank	8 000	
Drawings	(3 000)	
Loan repayment	(1 500)	
Net cash from Financing activities		**9 500**
Budgeted net increase in cash		**12 640**
Add: Bank balance at start (1 October)		6 000
Budgeted Bank balance at end (31 October)		**18 640**

∴ Beckett Sports budgets a $12 640 increase in cash, lifting the Bank from $6 000 to a healthy **$18 640** at 31 October.

Example 4 — a budget with credit receipts and payments and a planned asset disposal

Corinda Furnishings expects a **Bank** balance of $7 500 on 1 November 2025. For November it plans: **cash sales $36 000 (plus $3 600 GST)**; **receipts from Accounts Receivable $40 000** (GST-inclusive); **cash purchases of inventory $18 000 (plus $1 800 GST)**; **payments to Accounts Payable $34 000** (GST-inclusive); **wages $8 000**, **rent $2 600 (plus $260 GST)**, **advertising $900 (plus $90 GST)** and **interest expense $350**. It also plans to **buy new equipment for $12 000 (plus $1 200 GST)** and to **sell old equipment for $3 000 (plus $300 GST)**, to receive a **$5 000 capital contribution**, and to pay **$3 500 drawings** and a **$1 000 loan repayment**. Prepare the Budgeted Cash Flow Statement and explain the budgeted net change in cash.

GST received = $3 600 (cash sales) + $300 (on the cash disposal) = $3 900; GST paid = $1 800 + $260 + $90 + $1 200 = $3 350. Net Operating = ($36 000 + $40 000 + $3 900) − ($18 000 + $34 000 + $8 000 + $2 600 + $900 + $350 + $3 350) = $79 900 − $67 200 = $12 700. Net Investing = $3 000 − $12 000 = ($9 000). Net Financing = $5 000 − $3 500 − $1 000 = $500. Net change = $12 700 − $9 000 + $500 = $4 200; closing Bank = $7 500 + $4 200 = $11 700.

Budgeted Cash Flow Statement for the month ending 30 November 2025

Corinda Furnishings	$	$
Operating activities		
Cash sales	36 000	
Receipts from Accounts Receivable	40 000	
GST received	3 900	
Cash purchases of inventory	(18 000)	
Payments to Accounts Payable	(34 000)	
Wages	(8 000)	
Rent expense	(2 600)	
Advertising	(900)	
Interest expense	(350)	
GST paid	(3 350)	
Net cash from Operating activities		**12 700**
Investing activities		
Proceeds from sale of equipment	3 000	
Purchase of equipment	(12 000)	
Net cash used in Investing activities		**(9 000)**
Financing activities		
Capital contribution	5 000	
Drawings	(3 500)	
Loan repayment	(1 000)	
Net cash from Financing activities		**500**
Budgeted net increase in cash		**4 200**
Add: Bank balance at start (1 November)		7 500

Corinda Furnishings	$	$
Budgeted Bank balance at end (30 November)		**11 700**

∴ Corinda budgets a **$4 200** increase in cash. Strong operating cash of $12 700 — helped by the large $40 000 expected collection from debtors — is partly absorbed by the net $9 000 spent on replacing equipment (the $12 000 new asset, less the $3 000 received for the old one, both shown GST-exclusive), so the Bank rises modestly from $7 500 to **$11 700**.

Practice questions — scaffolded

Question 1

Willawong Tiles expects a **Bank** balance of $4 000 on 1 December 2025. For December it plans: cash sales $38 000 plus $3 800 GST; cash purchases of inventory $22 000 plus $2 200 GST; wages $5 500; rent $1 600 plus $160 GST; advertising $400 plus $40 GST; the cash purchase of equipment $6 000 plus $600 GST; a capital contribution of $3 000; a loan of $5 000 from MetroBank; and drawings $2 000.

a. Classify each budgeted cash flow as an Operating, Investing or Financing activity.

b. Calculate the budgeted net cash from Operating activities.

c. Prepare the Budgeted Cash Flow Statement for the month ending 31 December 2025 and state the budgeted closing Bank balance.

Question 2

Darnley Pools expects a **Bank** balance of $6 500 on 1 January 2026. For January it plans: cash sales $48 000 plus $4 800 GST; receipts from Accounts Receivable $20 000 (GST-inclusive); cash purchases of inventory $28 000 plus $2 800 GST; payments to Accounts Payable $18 000 (GST-inclusive); wages $7 000; rent $2 200 plus $220 GST; advertising $600 plus $60 GST; interest expense $300; the cash purchase of a vehicle $15 000 plus $1 500 GST; a capital contribution of $4 000; a loan of $10 000 from Bayside Finance; drawings $3 000; and a loan repayment of $1 200.

a. Prepare the Budgeted Cash Flow Statement for the month ending 31 January 2026.

b. State the budgeted net increase in cash and the budgeted closing Bank balance.

c. Explain in one sentence why the expected receipts from Accounts Receivable are shown without a separate GST line.

Question 3

Eumundi Cycles has prepared the following budgeted subtotals for the month ending 28 February 2026: an expected **Bank** balance of $2 500 on 1 February; budgeted net cash from Operating activities $9 000; budgeted net cash used in Investing activities $16 000; and budgeted net cash from Financing activities $3 000.

a. Calculate the budgeted net change in cash.

b. Calculate the budgeted closing Bank balance, and state whether it is a cash surplus or a bank overdraft.

c. Explain in one sentence one action the owner could take, before February begins, in response to this budgeted result.

Question 4

Fairholme Kitchens expects a **Bank** balance of $8 000 on 1 March 2026. For March it plans: cash sales $60 000 plus $6 000 GST; cash purchases of inventory $34 000 plus $3 400 GST; wages $9 000; rent $3 000 plus $300 GST; advertising $1 000 plus $100 GST; interest expense $400; the cash purchase of shop fittings $10 000 plus $1 000 GST; a capital contribution of $5 000; a loan of $12 000 from CityBank; drawings $4 000; and a loan repayment of $1 500.

a. Prepare the Budgeted Cash Flow Statement for the month ending 31 March 2026.

b. Show that the budgeted closing Bank balance equals the opening balance plus the budgeted net change in cash.

c. Explain in one sentence why the GST on the shop fittings is included in GST paid (Operating) rather than shown with the fittings in Investing.

Question 5

Grantham Marine expects a **Bank** balance of $4 000 on 1 April 2026. For April it plans: cash sales $34 000 plus $3 400 GST; receipts from Accounts Receivable $10 000 (GST-inclusive); cash purchases of inventory $22 000 plus $2 200 GST; payments to Accounts Payable $12 000 (GST-inclusive); wages $6 000; rent $2 000 plus $200 GST; advertising $500 plus $50 GST; interest expense $250; the cash purchase of equipment $20 000 plus $2 000 GST; drawings $2 500; and a loan repayment of $1 000.

a. Prepare the Budgeted Cash Flow Statement for the month ending 30 April 2026.

b. State the budgeted closing Bank balance and interpret what it means for the business.

c. State two actions the owner could take, before April begins, to avoid the budgeted overdraft.

Question 6

Hollytree Traders is preparing a Budgeted Cash Flow Statement for the month ending 31 May 2026 to support a loan application. It expects a **Bank** balance of $3 000 on 1 May, and honestly plans: cash sales $40 000 plus $4 000 GST; cash purchases of inventory $26 000 plus $2 600 GST; wages $6 500; rent $2 000 plus $200 GST; advertising $500 plus $50 GST; interest expense $300; the cash purchase of equipment $5 000 plus $500 GST; and drawings $3 000. To impress the lender, the owner proposes to record expected cash sales $20 000 higher (plus $2 000 more GST) than the business truly expects.

a. Prepare the **correct** (honest) Budgeted Cash Flow Statement and state the budgeted closing Bank balance.

b. Calculate the budgeted closing Bank balance the owner would report if expected cash sales were overstated by $20 000 (plus $2 000 GST).

c. Discuss the ethical considerations raised by the owner's proposal, referring to a relevant qualitative characteristic.

Practice questions — unscaffolded

Question 7

Inglewood Electrical expects a **Bank** balance of $5 500 on 1 June 2026. For June it plans: cash sales $46 000 plus $4 600 GST; cash purchases of inventory $27 000 plus $2 700 GST; wages $7 000; rent $2 300 plus $230 GST; advertising $650 plus $65 GST; interest expense $280; the cash purchase of equipment $8 000 plus $800 GST; a capital contribution of $4 000; a loan of $6 000 from Metro Finance; drawings $2 800; and a loan repayment of $1 100. Prepare the Budgeted Cash Flow Statement for the month ending 30 June 2026 and state the budgeted closing Bank balance.

Question 8

Jindalee Nursery is classifying the items in its budget. For each of the following, state the Cash Flow Statement activity (Operating, Investing or Financing) and whether it is a budgeted inflow or outflow: (i) expected cash sales; (ii) expected receipts from Accounts Receivable; (iii) expected cash purchases of inventory; (iv) expected payments to Accounts Payable; (v) the budgeted purchase of a delivery van; (vi) an expected capital contribution; (vii) budgeted wages; (viii) expected drawings; (ix) a budgeted loan (principal) repayment; (x) expected proceeds from the sale of old equipment; (xi) budgeted GST paid; (xii) an expected loan received.

Question 9

Kenmore Timber has prepared the following budgeted subtotals for the month ending 31 July 2026: an expected **Bank** balance of $7 000 on 1 July; budgeted net cash from Operating activities $18 000; budgeted net cash used in Investing activities $11 000; and budgeted net cash used in Financing activities $9 000. Calculate the budgeted net change in

cash and the budgeted closing Bank balance, and explain why the Bank is budgeted to fall even though trading is expected to generate cash.

Question 10

Larapinta Outdoor expects a **Bank** balance of $6 000 on 1 August 2026. For August it plans: cash sales $42 000 plus $4 200 GST; receipts from Accounts Receivable $26 000 (GST-inclusive); cash purchases of inventory $20 000 plus $2 000 GST; payments to Accounts Payable $22 000 (GST-inclusive); wages $7 500; rent $2 500 plus $250 GST; advertising $800 plus $80 GST; interest expense $300; the cash purchase of new fittings $14 000 plus $1 400 GST; the sale of old fittings for $2 000 plus $200 GST; a capital contribution of $6 000; a loan of $9 000 from Coastal Bank; drawings $3 500; and a loan repayment of $1 400. Prepare the Budgeted Cash Flow Statement for the month ending 31 August 2026 and state the budgeted closing Bank balance.

Question 11

Moorooka Bakery Supplies expects a **Bank** balance of $3 500 on 1 September 2026. For September it plans: cash sales $32 000 plus $3 200 GST; receipts from Accounts Receivable $8 000 (GST-inclusive); cash purchases of inventory $24 000 plus $2 400 GST; payments to Accounts Payable $10 000 (GST-inclusive); wages $6 000; rent $2 000 plus $200 GST; advertising $500 plus $50 GST; interest expense $250; the cash purchase of equipment $16 000 plus $1 600 GST; drawings $3 000; and a loan repayment of $1 000. Prepare the Budgeted Cash Flow Statement for the month ending 30 September 2026, and interpret the budgeted result, including what the operating subtotal alone tells the owner.

Question 12

Explain the purpose of budgeting, and outline **three** distinct benefits that preparing a Budgeted Cash Flow Statement provides to the owner of a trading business.

Question 13

Oxley Auto Parts expects a **Bank** balance of $9 000 on 1 October 2026. For October it plans: cash sales $70 000 plus $7 000 GST; receipts from Accounts Receivable $30 000 (GST-inclusive); cash purchases of inventory $40 000 plus $4 000 GST; payments to Accounts Payable $26 000 (GST-inclusive); wages $12 000; rent $4 000 plus $400 GST; advertising $1 200 plus $120 GST; interest expense $500; the cash purchase of a forklift $18 000 plus $1 800 GST; a capital contribution of $8 000; a loan of $15 000 from Bayside Finance; drawings $5 000; and a loan repayment of $2 000. Prepare the Budgeted Cash Flow Statement for the month ending 31 October 2026 and state the budgeted closing Bank balance.

Question 14

Pinelands Furniture has prepared the following budgeted subtotals for the month ending 30 November 2026: budgeted net cash from Operating activities $11 000; budgeted net cash used in Investing activities $14 000; and budgeted net cash from Financing activities $6 000. Its budgeted closing **Bank** balance is $8 000. (a) Calculate the budgeted net change in cash and the opening Bank balance the budget must have assumed. (b) If the owner instead deferred the $14 000 investing outflow to the following period (with no other change), calculate the revised budgeted closing Bank balance.

Question 15

Quilpie Trading expects a **Bank** balance of $5 000 on 1 December 2026, and expects to trade profitably. For December it plans: cash sales $50 000 plus $5 000 GST; cash purchases of inventory $30 000 plus $3 000 GST; wages $8 000; rent $2 500 plus $250 GST; advertising $700 plus $70 GST; interest expense $350; the cash purchase of a vehicle $24 000 plus $2 400 GST; drawings $6 000; and a loan repayment of $8 000. Prepare the Budgeted Cash Flow Statement for the month ending 31 December 2026, and explain how a business that expects to trade profitably can still budget a large fall in its cash.

Question 16

Discuss the benefits **and** the limitations of preparing a Budgeted Cash Flow Statement, and state the one condition that must be met after the period for a budget to deliver its full benefit.

Question 17

Rosewood Homewares' owner intends to submit a Budgeted Cash Flow Statement to a bank to obtain a loan. The owner proposes to overstate expected receipts from Accounts Receivable and to leave out a large planned drawing, so that the statement shows a much stronger closing Bank balance than the owner genuinely expects. Discuss the ethical considerations raised, referring to a relevant qualitative characteristic and to the effect on the lender.

Question 18

Tarragindi Trading Co expects a **Bank** balance of $10 000 on 1 January 2027. For January it plans: cash sales $80 000 plus $8 000 GST; receipts from Accounts Receivable $45 000 (GST-inclusive); cash purchases of inventory $44 000 plus $4 400 GST; payments to Accounts Payable $30 000 (GST-inclusive); wages $14 000; rent $4 500 plus $450 GST; advertising $1 500 plus $150 GST; interest expense $600; the cash purchase of a premises fit-out $22 000 plus $2 200 GST; the sale of an old vehicle for $5 000 plus $500 GST; a capital contribution of $10 000; a loan of $20 000 from CityBank; drawings $6 000; and a loan repayment of $2 500. Prepare the Budgeted Cash Flow Statement for the month ending 31 January 2027, and state the budgeted net cash from each of the three activities and the budgeted closing Bank balance.

Answers

1.
    b. Net Operating $9 300 c. net Investing ($6 000); net Financing $6 000; budgeted closing Bank $13 300
2.
    b. Budgeted net increase $6 920; closing Bank $13 420 (net Operating $12 120; net Investing ($15 000); net Financing $9 800)
3.
    a. Budgeted net decrease $4 000 b. Closing Bank ($1 500) — a bank overdraft
4. Net Operating $13 800; net Investing ($10 000); net Financing $11 500; closing Bank $23 300
5. Net Operating $200; net Investing ($20 000); net Financing ($3 500); closing Bank ($19 300) — a budgeted bank overdraft
6.
    a. Closing Bank $350 b. Padded closing Bank $22 350 (overstated by $22 000)
7. Net Operating $9 575; net Investing ($8 000); net Financing $6 100; closing Bank $13 175
8. See solutions (classification key)
9. Budgeted net decrease $2 000; closing Bank $5 000
10. Net Operating $15 570; net Investing ($12 000); net Financing $10 100; closing Bank $19 670
11. Net Operating ($3 800); net Investing ($16 000); net Financing ($4 000); closing Bank ($20 300) — a budgeted bank overdraft
12. See solutions
13. Net Operating $16 980; net Investing ($18 000); net Financing $16 000; closing Bank $23 980
14.
    a. Budgeted net change $3 000; opening Bank $5 000 b. Revised closing Bank $22 000
15. Net Operating $7 730; net Investing ($24 000); net Financing ($14 000); closing Bank ($25 270) — a budgeted bank overdraft
16. See solutions
17. See solutions
18. Net Operating $31 700; net Investing ($17 000); net Financing $21 500; closing Bank $46 200

Fully-worked solutions

Question 1

a. **Operating** — cash sales, GST received, cash purchases of inventory, wages, rent, advertising, GST paid; **Investing** — purchase of equipment; **Financing** — capital contribution, loan from MetroBank, drawings.

b. GST received = $3 800; GST paid = $2 200 + $160 + $40 + $600 = $3 000. Net Operating = ($38 000 + $3 800) − ($22 000 + $5 500 + $1 600 + $400 + $3 000) = $41 800 − $32 500 = **$9 300**.

Budgeted Cash Flow Statement for the month ending 31 December 2025

Willawong Tiles	$	$
Operating activities		
Cash sales	38 000	
GST received	3 800	
Cash purchases of inventory	(22 000)	
Wages	(5 500)	
Rent expense	(1 600)	
Advertising	(400)	
GST paid	(3 000)	
Net cash from Operating		**9 300**

Willawong Tiles	$	$
activities		
Investing activities		
Purchase of equipment	(6 000)	
Net cash used in Investing activities		**(6 000)**
Financing activities		
Capital contribution	3 000	
Loan – MetroBank	5 000	
Drawings	(2 000)	
Net cash from Financing activities		**6 000**
Budgeted net increase in cash		**9 300**
Add: Bank balance at start (1 December)		4 000
Budgeted Bank balance at end (31 December)		**13 300**

Budgeted closing Bank balance = **$13 300**.

Question 2

GST received = $4 800; GST paid = $2 800 + $220 + $60 + $1 500 = $4 580. Net Operating = ($48 000 + $20 000 + $4 800) − ($28 000 + $18 000 + $7 000 + $2 200 + $600 + $300 + $4 580) = $72 800 − $60 680 = $12 120. Net Investing = ($15 000). Net Financing = $4 000 + $10 000 − $3 000 − $1 200 = $9 800.

Budgeted Cash Flow Statement for the month ending 31 January 2026

Darnley Pools	$	$
Operating activities		
Cash sales	48 000	
Receipts from Accounts Receivable	20 000	
GST received	4 800	
Cash purchases of inventory	(28 000)	
Payments to Accounts Payable	(18 000)	
Wages	(7 000)	
Rent expense	(2 200)	
Advertising	(600)	
Interest expense	(300)	
GST paid	(4 580)	
Net cash from Operating activities		**12 120**
Investing activities		
Purchase of vehicle	(15 000)	
Net cash used in Investing activities		**(15 000)**

Darnley Pools	$	$
Financing activities		
Capital contribution	4 000	
Loan – Bayside Finance	10 000	
Drawings	(3 000)	
Loan repayment	(1 200)	
Net cash from Financing activities		**9 800**
Budgeted net increase in cash		**6 920**
Add: Bank balance at start (1 January)		6 500
Budgeted Bank balance at end (31 January)		**13 420**

b. Budgeted net increase in cash = \$12 120 − \$15 000 + \$9 800 = **\$6 920**; budgeted closing Bank = \$6 500 + \$6 920 = **\$13 420**.

c. The \$20 000 receipt from a debtor is a **single GST-inclusive** sum — the customer pays the goods **and** the GST in one amount, and that GST was already recorded when the credit sale was invoiced — so no separate GST line is added; only the GST on **cash** sales (\$4 800) appears in GST received.

Question 3

a. Budgeted net change = \$9 000 − \$16 000 + \$3 000 = **(\$4 000)** — a budgeted net **decrease** in cash.

b. Budgeted closing Bank = \$2 500 + (−\$4 000) = **(\$1 500)** — a negative balance, so a budgeted **bank overdraft**.

c. Because the shortfall is foreseen **before** February begins, the owner could (any one) **arrange a loan or an approved overdraft facility** to cover the gap, **defer** the large investing outflow to a later month, **reduce planned drawings**, or **bring forward collections** from debtors — so the business is not caught short.

Question 4

GST received = \$6 000; GST paid = \$3 400 + \$300 + \$100 + \$1 000 = \$4 800. Net Operating = (\$60 000 + \$6 000) − (\$34 000 + \$9 000 + \$3 000 + \$1 000 + \$400 + \$4 800) = \$66 000 − \$52 200 = \$13 800. Net Investing = (\$10 000). Net Financing = \$5 000 + \$12 000 − \$4 000 − \$1 500 = \$11 500.

Budgeted Cash Flow Statement for the month ending 31 March 2026

Fairholme Kitchens	$	$
Operating activities		
Cash sales	60 000	
GST received	6 000	
Cash purchases of inventory	(34 000)	
Wages	(9 000)	
Rent expense	(3 000)	
Advertising	(1 000)	
Interest expense	(400)	
GST paid	(4 800)	
Net cash from Operating activities		**13 800**
Investing activities		

Fairholme Kitchens	$	$
Purchase of shop fittings	(10 000)	
Net cash used in Investing activities		**(10 000)**
Financing activities		
Capital contribution	5 000	
Loan – CityBank	12 000	
Drawings	(4 000)	
Loan repayment	(1 500)	
Net cash from Financing activities		**11 500**
Budgeted net increase in cash		**15 300**
Add: Bank balance at start (1 March)		8 000
Budgeted Bank balance at end (31 March)		**23 300**

b. Budgeted net change = \$13 800 − \$10 000 + \$11 500 = **\$15 300**; opening \$8 000 + \$15 300 = **\$23 300** = budgeted closing Bank balance. ✓

c. **GST received and GST paid are Operating** flows, so all of the GST — including the \$1 000 on the shop fittings — is collected into the Operating **GST paid** line; the **Investing** section shows only the \$10 000 **GST-exclusive** cost of the asset itself.

Question 5

GST received = \$3 400; GST paid = \$2 200 + \$200 + \$50 + \$2 000 = \$4 450. Net Operating = (\$34 000 + \$10 000 + \$3 400) − (\$22 000 + \$12 000 + \$6 000 + \$2 000 + \$500 + \$250 + \$4 450) = \$47 400 − \$47 200 = \$200. Net Investing = (\$20 000). Net Financing = −\$2 500 − \$1 000 = (\$3 500).

Budgeted Cash Flow Statement for the month ending 30 April 2026

Grantham Marine	$	$
Operating activities		
Cash sales	34 000	
Receipts from Accounts Receivable	10 000	
GST received	3 400	
Cash purchases of inventory	(22 000)	
Payments to Accounts Payable	(12 000)	
Wages	(6 000)	
Rent expense	(2 000)	
Advertising	(500)	
Interest expense	(250)	
GST paid	(4 450)	
Net cash from Operating activities		**200**
Investing activities		

Grantham Marine	$	$
Purchase of equipment	(20 000)	
Net cash used in Investing activities		**(20 000)**
Financing activities		
Drawings	(2 500)	
Loan repayment	(1 000)	
Net cash used in Financing activities		**(3 500)**
Budgeted net decrease in cash		**(23 300)**
Add: Bank balance at start (1 April)		4 000
Budgeted Bank balance at end (30 April)		**(19 300)**

b. Budgeted closing Bank = \$4 000 − \$23 300 = **(\$19 300)** — a budgeted **bank overdraft**. The plan as it stands would leave Grantham owing the bank \$19 300 at 30 April: trading is expected to about break even on cash (\$200), but the \$20 000 equipment purchase, plus drawings and the loan repayment, overwhelm it.

c. Any two: **arrange finance in advance** (a loan or an approved overdraft) to fund the equipment; **defer or scale back the \$20 000 equipment purchase**; **reduce the drawings**; **postpone the loan repayment** where terms allow; or **collect from debtors sooner / lift cash sales** to raise operating cash.

Question 6

a. GST received = \$4 000; GST paid = \$2 600 + \$200 + \$50 + \$500 = \$3 350. Net Operating = (\$40 000 + \$4 000) − (\$26 000 + \$6 500 + \$2 000 + \$500 + \$300 + \$3 350) = \$44 000 − \$38 650 = \$5 350. Net Investing = (\$5 000). Net Financing = (\$3 000).

Budgeted Cash Flow Statement for the month ending 31 May 2026

Hollytree Traders	$	$
Operating activities		
Cash sales	40 000	
GST received	4 000	
Cash purchases of inventory	(26 000)	
Wages	(6 500)	
Rent expense	(2 000)	
Advertising	(500)	
Interest expense	(300)	
GST paid	(3 350)	
Net cash from Operating activities		**5 350**
Investing activities		
Purchase of equipment	(5 000)	
Net cash used in Investing activities		**(5 000)**
Financing activities		
Drawings	(3 000)	

Hollytree Traders	$	$
Net cash used in Financing activities		**(3 000)**
Budgeted net decrease in cash		**(2 650)**
Add: Bank balance at start (1 May)		3 000
Budgeted Bank balance at end (31 May)		**350**

The honest budget shows a small net **decrease** of $2 650, leaving just **$350** in the Bank at 31 May.

b. Overstating expected cash sales by $20 000 adds $20 000 + $2 000 GST = **$22 000** to operating inflows: net Operating would become $5 350 + $22 000 = $27 350, the net change $27 350 − $5 000 − $3 000 = $19 350, and the reported closing Bank $3 000 + $19 350 = **$22 350** — overstated by $22 000.

c. The proposal turns a realistic budget (closing Bank $350) into one showing $22 350, a figure the owner does **not** genuinely expect to achieve. A Budgeted Cash Flow Statement given to a lender should be a **faithful representation** in forward-looking form — a realistic, **neutral** estimate free from bias — and the padded budget is neither complete nor neutral. The **relevance** of the report to the lender's decision is destroyed, because it no longer reflects the cash the business can truly expect. Acting on the inflated $22 350, the bank may lend money the business has little genuine capacity to service or repay, exposing the lender to loss and the owner to default and reputational damage once the true, tight cash position emerges. The ethical course is to submit the honest budget — closing Bank $350 — even though it is less impressive, and, if more cash is genuinely needed, to say so openly.

Question 7

GST received = $4 600; GST paid = $2 700 + $230 + $65 + $800 = $3 795. Net Operating = ($46 000 + $4 600) − ($27 000 + $7 000 + $2 300 + $650 + $280 + $3 795) = $50 600 − $41 025 = $9 575. Net Investing = ($8 000). Net Financing = $4 000 + $6 000 − $2 800 − $1 100 = $6 100.

Budgeted Cash Flow Statement for the month ending 30 June 2026

Inglewood Electrical	$	$
Operating activities		
Cash sales	46 000	
GST received	4 600	
Cash purchases of inventory	(27 000)	
Wages	(7 000)	
Rent expense	(2 300)	
Advertising	(650)	
Interest expense	(280)	
GST paid	(3 795)	
Net cash from Operating activities		**9 575**
Investing activities		
Purchase of equipment	(8 000)	
Net cash used in Investing activities		**(8 000)**
Financing activities		
Capital contribution	4 000	

Inglewood Electrical	$	$
Loan – Metro Finance	6 000	
Drawings	(2 800)	
Loan repayment	(1 100)	
Net cash from Financing activities		**6 100**
Budgeted net increase in cash		**7 675**
Add: Bank balance at start (1 June)		5 500
Budgeted Bank balance at end (30 June)		**13 175**

Budgeted closing Bank balance = **$13 175**.

Question 8

Budgeted item	Activity	Direction
(i) Expected cash sales	Operating	Inflow
(ii) Expected receipts from Accounts Receivable	Operating	Inflow
(iii) Expected cash purchases of inventory	Operating	Outflow
(iv) Expected payments to Accounts Payable	Operating	Outflow
(v) Purchase of a delivery van	Investing	Outflow
(vi) Capital contribution	Financing	Inflow
(vii) Wages	Operating	Outflow
(viii) Drawings	Financing	Outflow
(ix) Loan (principal) repayment	Financing	Outflow
(x) Proceeds from sale of old equipment	Investing	Inflow
(xi) GST paid	Operating	Outflow
(xii) Loan received	Financing	Inflow

The pattern is the same as for the historical statement: day-to-day trading receipts and payments (and GST) are **Operating**; buying or selling **non-current assets** is **Investing**; dealings with the **owner and lenders** are **Financing**.

Question 9

Budgeted net change = \$18 000 − \$11 000 − \$9 000 = **($2 000)** — a net decrease; budgeted closing Bank = \$7 000 + (−\$2 000) = **$5 000**. The Bank is budgeted to **fall** even though **operating** trading is expected to generate \$18 000 of cash, because the **Investing** and **Financing** outflows together (\$11 000 + \$9 000 = \$20 000 — an asset purchase and net repayments/drawings) are budgeted to exceed the operating inflow by \$2 000. Positive operating cash does not guarantee a rising Bank when large investing and financing outflows are planned; here the business still ends with a \$5 000 surplus, but \$2 000 lower than it started.

Question 10

GST received = \$4 200 (cash sales) + \$200 (cash disposal of old fittings) = \$4 400; GST paid = \$2 000 + \$250 + \$80 + \$1 400 = \$3 730. Net Operating = (\$42 000 + \$26 000 + \$4 400) − (\$20 000 + \$22 000 + \$7 500 + \$2 500 + \$800 +

$300 + $3 730) = $72 400 − $56 830 = $15 570. Net Investing = $2 000 − $14 000 = ($12 000). Net Financing = $6 000 + $9 000 − $3 500 − $1 400 = $10 100.

Budgeted Cash Flow Statement for the month ending 31 August 2026

Larapinta Outdoor	$	$
Operating activities		
Cash sales	42 000	
Receipts from Accounts Receivable	26 000	
GST received	4 400	
Cash purchases of inventory	(20 000)	
Payments to Accounts Payable	(22 000)	
Wages	(7 500)	
Rent expense	(2 500)	
Advertising	(800)	
Interest expense	(300)	
GST paid	(3 730)	
Net cash from Operating activities		**15 570**
Investing activities		
Proceeds from sale of fittings	2 000	
Purchase of fittings	(14 000)	
Net cash used in Investing activities		**(12 000)**
Financing activities		
Capital contribution	6 000	
Loan – Coastal Bank	9 000	
Drawings	(3 500)	
Loan repayment	(1 400)	
Net cash from Financing activities		**10 100**
Budgeted net increase in cash		**13 670**
Add: Bank balance at start (1 August)		6 000
Budgeted Bank balance at end (31 August)		**19 670**

Budgeted closing Bank balance = **$19 670**.

Question 11

GST received = $3 200; GST paid = $2 400 + $200 + $50 + $1 600 = $4 250. Net Operating = ($32 000 + $8 000 + $3 200) − ($24 000 + $10 000 + $6 000 + $2 000 + $500 + $250 + $4 250) = $43 200 − $47 000 = ($3 800). Net Investing = ($16 000). Net Financing = −$3 000 − $1 000 = ($4 000).

Budgeted Cash Flow Statement for the month ending 30 September 2026

Moorooka Bakery Supplies	$	$
Operating activities		
Cash sales	32 000	
Receipts from Accounts Receivable	8 000	
GST received	3 200	
Cash purchases of inventory	(24 000)	
Payments to Accounts Payable	(10 000)	
Wages	(6 000)	
Rent expense	(2 000)	
Advertising	(500)	
Interest expense	(250)	
GST paid	(4 250)	
Net cash used in Operating activities		**(3 800)**
Investing activities		
Purchase of equipment	(16 000)	
Net cash used in Investing activities		**(16 000)**
Financing activities		
Drawings	(3 000)	
Loan repayment	(1 000)	
Net cash used in Financing activities		**(4 000)**
Budgeted net decrease in cash		**(23 800)**
Add: Bank balance at start (1 September)		3 500
Budgeted Bank balance at end (30 September)		**(20 300)**

The budget warns of serious trouble. The **operating subtotal is itself negative — ($3 800)** — meaning Moorooka's expected day-to-day trading will **consume** cash rather than generate it (the planned inventory purchases, payments to suppliers and expenses outrun the expected receipts), before a cent is spent on the $16 000 equipment or the $4 000 of drawings and loan repayment. The Bank is budgeted to plunge from $3 500 to a **$20 300 overdraft**. Seeing this now, the owner should reconsider the whole plan — defer or finance the equipment, lift sales or trim purchases and expenses so operations turn cash-positive, cut drawings, and arrange an overdraft facility as a safeguard — well before September begins.

Question 12

The **purpose of budgeting** is to **plan for the future in financial terms**: to translate the business's objectives and expected activities into expected dollar figures, prepared **before** the period begins, so the owner can steer the business deliberately rather than react to events after they occur.

Three distinct benefits of a **Budgeted Cash Flow Statement** for a trading owner:

- **It forecasts the cash position and warns of shortfalls.** By predicting the closing **Bank** balance, it reveals **in advance** whether the business will run short of cash (an overdraft) or hold a surplus — giving the owner time to arrange finance, defer spending or reschedule payments before a crisis hits.
- **It supports specific cash decisions.** With the expected inflows and outflows set out by activity, the owner can judge **when** the business can afford to replace an asset, **how large** a loan repayment or drawing it can sustain, and **whether** a planned expansion is affordable.
- **It provides a benchmark for evaluation.** After the period, the **actual** cash flows are compared with the budget in a variance report, so the owner can see where cash performance beat or missed the plan, investigate why, and take corrective action — and budget more accurately next time.

(Other acceptable benefits include setting measurable cash targets, coordinating the timing of receipts and payments, and communicating expectations to those responsible.)

Question 13

GST received = $7 000; GST paid = $4 000 + $400 + $120 + $1 800 = $6 320. Net Operating = ($70 000 + $30 000 + $7 000) − ($40 000 + $26 000 + $12 000 + $4 000 + $1 200 + $500 + $6 320) = $107 000 − $90 020 = $16 980. Net Investing = ($18 000). Net Financing = $8 000 + $15 000 − $5 000 − $2 000 = $16 000.

Budgeted Cash Flow Statement for the month ending 31 October 2026

Oxley Auto Parts	$	$
Operating activities		
Cash sales	70 000	
Receipts from Accounts Receivable	30 000	
GST received	7 000	
Cash purchases of inventory	(40 000)	
Payments to Accounts Payable	(26 000)	
Wages	(12 000)	
Rent expense	(4 000)	
Advertising	(1 200)	
Interest expense	(500)	
GST paid	(6 320)	
Net cash from Operating activities		**16 980**
Investing activities		
Purchase of forklift	(18 000)	
Net cash used in Investing activities		**(18 000)**
Financing activities		
Capital contribution	8 000	
Loan – Bayside Finance	15 000	
Drawings	(5 000)	
Loan repayment	(2 000)	
Net cash from Financing activities		**16 000**
Budgeted net increase in cash		**14 980**

Oxley Auto Parts	$	$
Add: Bank balance at start (1 October)		9 000
Budgeted Bank balance at end (31 October)		**23 980**

Budgeted closing Bank balance = **$23 980**.

Question 14

a. Budgeted net change = $11 000 − $14 000 + $6 000 = **$3 000**. Because closing Bank = opening + net change, the opening balance the budget assumed = closing − net change = $8 000 − $3 000 = **$5 000**.

b. Deferring the $14 000 investing outflow (net Investing becomes $0) leaves net Operating $11 000 and net Financing $6 000, a revised net change of $11 000 + $0 + $6 000 = $17 000. Revised closing Bank = opening $5 000 + $17 000 = **$22 000**. Postponing the asset purchase lifts the budgeted closing balance by exactly the $14 000 not spent — a decision the Budgeted Cash Flow Statement lets the owner test before committing.

Question 15

GST received = $5 000; GST paid = $3 000 + $250 + $70 + $2 400 = $5 720. Net Operating = ($50 000 + $5 000) − ($30 000 + $8 000 + $2 500 + $700 + $350 + $5 720) = $55 000 − $47 270 = $7 730. Net Investing = ($24 000). Net Financing = −$6 000 − $8 000 = ($14 000).

Budgeted Cash Flow Statement for the month ending 31 December 2026

Quilpie Trading	$	$
Operating activities		
Cash sales	50 000	
GST received	5 000	
Cash purchases of inventory	(30 000)	
Wages	(8 000)	
Rent expense	(2 500)	
Advertising	(700)	
Interest expense	(350)	
GST paid	(5 720)	
Net cash from Operating activities		**7 730**
Investing activities		
Purchase of vehicle	(24 000)	
Net cash used in Investing activities		**(24 000)**
Financing activities		
Drawings	(6 000)	
Loan repayment	(8 000)	
Net cash used in Financing activities		**(14 000)**
Budgeted net decrease in cash		**(30 270)**
Add: Bank balance at start (1 December)		5 000

Quilpie Trading	$	$
Budgeted Bank balance at end (31 December)		**(25 270)**

Quilpie expects to **trade profitably** — its operating activities are budgeted to generate a healthy **$7 730** of cash — yet its Bank is budgeted to fall by **$30 270**, to a **$25 270 overdraft**. The reason is that the large planned outflows are **not trading expenses** and so do not reduce profit: the **$24 000 vehicle** is an investing outflow (only its future depreciation, not its cash cost, will ever hit profit), while the **$6 000 drawings** and the **$8 000 loan (principal) repayment** are financing outflows that never appear in the Income Statement at all. **Profit and cash are different things**: a business can expect a good profit and still budget a steep fall in cash when it plans to sink cash into assets, withdrawals and debt repayment — which is exactly why a Budgeted Cash Flow Statement is prepared alongside the Budgeted Income Statement, so the owner can arrange for this expected shortfall in advance.

Question 16

Benefits. A Budgeted Cash Flow Statement lets the owner **plan ahead** and **anticipate the cash position** — most valuably, it **warns of an expected overdraft (or surplus) before the period begins**, so the owner can arrange finance, defer spending or reschedule payments in time. It helps the owner make **specific cash decisions** (when to buy an asset, how much to draw), sets **measurable cash targets**, and provides a **benchmark** against which actual results are later compared in a variance report.

Limitations. A budget is only an **estimate built on assumptions** — expected sales, collection patterns and prices — and if those assumptions prove wrong the budget will be **inaccurate**, sometimes badly so. Preparing and monitoring budgets **takes time and resources**, and a poorly prepared or deliberately biased budget can **mislead** the very decisions it is meant to inform.

The condition for full benefit. A budget delivers its full value only if, **after** the period, the **actual results are compared against it** (a variance report), the differences are investigated, and the owner **acts** on what is found. A budget that is prepared and then never compared with reality yields almost no benefit at all.

Question 17

Overstating expected receipts from Accounts Receivable and omitting a large planned drawing would make the Budgeted Cash Flow Statement show a **much stronger closing Bank balance than Rosewood's owner genuinely expects**. A budget submitted to a lender should be the forward-looking equivalent of a **faithful representation** — a **realistic, complete and neutral** estimate free from bias. This proposal breaches that standard on both counts: inflating expected receipts makes it **not neutral** (biased upward), and leaving out the planned drawing makes it **not complete** (a real, known outflow is hidden). The report's **relevance** to the lending decision is destroyed, because it no longer reflects the cash the business can truly expect to hold. Relying on the misleadingly rosy statement, the **lender may approve a loan the business has little genuine capacity to repay**, exposing the bank to loss when the true cash position proves far weaker; the owner, in turn, risks **default, the loss of the lender's trust and reputational damage** once the actual results diverge sharply from the budget presented. The ethical course is to submit a budget the owner **honestly believes is achievable** — including every planned drawing and a realistic estimate of collections — even if it shows a tighter cash position, and to discuss any genuine funding need openly with the lender.

Question 18

GST received = $8 000 (cash sales) + $500 (cash disposal of the old vehicle) = $8 500; GST paid = $4 400 + $450 + $150 + $2 200 = $7 200. Net Operating = ($80 000 + $45 000 + $8 500) − ($44 000 + $30 000 + $14 000 + $4 500 + $1 500 + $600 + $7 200) = $133 500 − $101 800 = $31 700. Net Investing = $5 000 − $22 000 = ($17 000). Net Financing = $10 000 + $20 000 − $6 000 − $2 500 = $21 500.

Budgeted Cash Flow Statement for the month ending 31 January 2027

Tarragindi Trading Co	$	$
Operating activities		
Cash sales	80 000	
Receipts from Accounts	45 000	

Tarragindi Trading Co	$	$
Receivable		
GST received	8 500	
Cash purchases of inventory	(44 000)	
Payments to Accounts Payable	(30 000)	
Wages	(14 000)	
Rent expense	(4 500)	
Advertising	(1 500)	
Interest expense	(600)	
GST paid	(7 200)	
Net cash from Operating activities		**31 700**
Investing activities		
Proceeds from sale of vehicle	5 000	
Purchase of premises fit-out	(22 000)	
Net cash used in Investing activities		**(17 000)**
Financing activities		
Capital contribution	10 000	
Loan – CityBank	20 000	
Drawings	(6 000)	
Loan repayment	(2 500)	
Net cash from Financing activities		**21 500**
Budgeted net increase in cash		**36 200**
Add: Bank balance at start (1 January)		10 000
Budgeted Bank balance at end (31 January)		**46 200**

Budgeted net cash from **Operating** activities = **$31 700**; net cash used in **Investing** activities = **($17 000)**; net cash from **Financing** activities = **$21 500**. These re-sum to the **$36 200** budgeted net increase in cash, lifting the Bank from $10 000 to a budgeted closing balance of **$46 200**.

Chapter 17 Budgets — 17B The Budgeted Cash Flow Statement over consecutive periods

Theory

A **budget** is a **financial plan for a future period**, prepared before that period begins, that expresses management's expectations in dollars. The **Budgeted Cash Flow Statement** is the *cash* budget within that plan: it applies the three activity classifications — **Operating**, **Investing** and **Financing** — to the cash the business *expects* to receive and pay, so that the owner can see, before the period begins, whether the plan leaves enough cash in the **Bank**.

A single-period budget answers only "how will the quarter end?" But a business does not run out of cash at the *average* — it runs out on the *worst day*. Preparing the Budgeted Cash Flow Statement over **consecutive periods** — month by month, or quarter by quarter, side by side in **one column per period** — shows the cash position at the end of *each* period, so a short-term squeeze hidden inside an otherwise healthy quarter becomes visible in time to act on it.

The periods form a chain. The consecutive-period budget works because the closing **Bank** balance of one period is not a fresh start — it is the cash the business physically carries into the next period. So:

> **Net increase/(decrease) in cash = total budgeted receipts − total budgeted payments**
>
> **Closing Bank = opening Bank + net increase/(decrease) in cash**
>
> **Opening Bank of a period = closing Bank of the previous period** (the balance rolls forward)

Because each opening balance depends on the one before it, the periods **cannot be budgeted in isolation**: an error, a delayed receipt or an extra payment in the first period flows through into the opening balance of every period that follows. A negative closing balance is a **budgeted bank overdraft** — a current liability — warning the owner that, on current plans, the business will be overdrawn at that point.

Timing of receipts from credit sales. A **credit sale** is made now but the cash arrives later — often spread over more than one month. A business estimates, from experience, a **collection pattern**: the proportion of a credit sale it expects to collect in the **month of the sale** and in each **following month**. Because the customer owes the **GST-inclusive** total, the collection pattern is applied to the **GST-inclusive** credit sales figure (credit sales *plus* GST, i.e. the ex-GST figure × 1.1). A **collection schedule** lays each month's credit sales across the months in which it will be collected; the **column total for a period is the budgeted Receipts from Accounts Receivable** for that period.

Timing of payments for credit purchases. The mirror image applies to suppliers. A **credit purchase** of inventory is recorded now but paid later, according to a **payment pattern**. Applied to the GST-inclusive credit purchases, a **payment schedule** gives the budgeted **Payments to Accounts Payable** for each period. Because collections and payments each straddle several periods, the receipt (or payment) budgeted for a period is almost never equal to that period's own credit sales (or purchases) — it is a *mixture* of amounts owing from several periods.

GST in the consecutive-period budget (the same rules as every other Cash Flow Statement). GST received and **GST paid** are **Operating** flows, and each column carries only the GST expected to move in cash **in that period**. So in every period's column:

- expected **cash sales** are shown at their **GST-exclusive** amount, with the 10% GST on them collected into that column's **GST received**;
- expected **Receipts from Accounts Receivable** and **Payments to Accounts Payable** are single **GST-inclusive** cash amounts and get **no** separate GST line — the GST was recorded when the credit sale or purchase was first invoiced, and it travels inside the cash the customer or supplier actually moves;
- expected **cash expenses that bear GST** (**rent**, **advertising**) are shown **GST-exclusive**, with their GST in that column's **GST paid**; **wages** and **interest expense** carry no GST;
- a **non-current asset** bought for cash appears in **Investing** at its **GST-exclusive** cost, with its GST in that period's Operating **GST paid** — so the month of an asset purchase carries a noticeably larger GST paid figure.

Where a budget is summarised only as **total budgeted receipts** and **total budgeted payments** — as in a quarter-by-quarter overview — those totals are the GST-inclusive cash figures, with the GST already inside them.

Structure. Each period gets its own column. Within a column the statement is classified exactly as a single-period one — Operating, Investing and Financing, each subtotalled, then combined into the net change in cash, added to that period's opening Bank to give its closing Bank. **Outflows are shown in brackets.** The roll-forward is read *across* the bottom two rows: the closing Bank of one column reappears as the opening Bank of the next.

Ethical considerations. A Budgeted Cash Flow Statement is frequently prepared **for someone else to rely on** — a bank deciding whether to extend an overdraft or a loan, or the owner deciding whether the business can afford new equipment or increased drawings. The estimates it rests on — above all the **collection pattern** — are chosen by the owner, and an optimistic assumption (collecting sooner than experience justifies) lifts the budgeted Receipts from Accounts Receivable and flatters every closing Bank balance that rolls forward from it. Presenting such figures to a lender as though they were a **faithful representation** is misleading: the pattern is not **verifiable** against the business's actual collection history, the borrowed funds may be advanced on cash flows that never arrive, and the owner's credibility is damaged once the real figures emerge. Ethical budgeting uses collection and payment patterns that the business's own records support, discloses the assumptions made, and presents the consecutive-period statement neutrally — so that the reader judges the plan on cash the business can realistically expect, not on cash the owner would prefer to show.

Worked model. Brookvale Trading sells homewares and budgets its cash **month by month** for the quarter ending 30 September 2025. Its **Bank** balance on 1 July is $15 000. It makes all sales and all inventory purchases **on credit**.

Budgeted credit sales (plus GST) are $40 000 in June, $50 000 in July, $60 000 in August and $70 000 in September — GST-inclusive amounts of $44 000, $55 000, $66 000 and $77 000. The **collection pattern** is **50% in the month of sale and 50% in the following month**:

Collection schedule — Receipts from Accounts Receivable

Credit sales (incl. GST)	Jul $	Aug $	Sep $
June 44 000 — 50% collected in July	22 000		
July 55 000 — 50% July, 50% August	27 500	27 500	
August 66 000 — 50% August, 50% September		33 000	33 000
September 77 000 — 50% September			38 500
Receipts from Accounts Receivable	**49 500**	**60 500**	**71 500**

Budgeted credit purchases of inventory (plus GST) are $30 000 in June, $40 000 in July, $45 000 in August and $50 000 in September — GST-inclusive $33 000, $44 000, $49 500 and $55 000. The **payment pattern** is **40% in the month of purchase and 60% in the following month**:

Payment schedule — Payments to Accounts Payable

Credit purchases (incl. GST)	Jul $	Aug $	Sep $
June 33 000 — 60% paid in July	19 800		
July 44 000 — 40% July, 60% August	17 600	26 400	
August 49 500 — 40% August, 60% September		19 800	29 700
September 55 000 — 40% September			22 000
Payments to Accounts	**37 400**	**46 200**	**51 700**

Credit purchases (incl. GST)	Jul $	Aug $	Sep $
Payable			

Other budgeted operating payments are wages ($8 000, $8 000, $8 500), rent expense ($3 000 plus $300 GST each month), advertising ($1 000 plus $100 GST, $1 200 plus $120 GST, $800 plus $80 GST) and interest expense ($400 each month). In July the business will buy shop equipment for $12 000 plus $1 200 GST and the owner will contribute $8 000 of capital; in August it will receive a $10 000 loan from Coastal Bank; drawings are $2 000 each month and a $1 000 loan repayment is made in September.

Each month's **GST paid** gathers the GST on that month's rent and advertising — and, in July, the GST on the shop equipment as well:

July $300 + $100 + $1 200 = **$1 600 August** $300 + $120 = **$420 September** $300 + $80 = **$380**

Budgeted Cash Flow Statement for the quarter ending 30 September 2025 (by month)

Brookvale Trading	Jul $	Aug $	Sep $
Operating activities			
Receipts from Accounts Receivable	49 500	60 500	71 500
Payments to Accounts Payable	(37 400)	(46 200)	(51 700)
Wages	(8 000)	(8 000)	(8 500)
Rent expense	(3 000)	(3 000)	(3 000)
Advertising	(1 000)	(1 200)	(800)
Interest expense	(400)	(400)	(400)
GST paid	(1 600)	(420)	(380)
Net cash from Operating activities	**(1 900)**	**1 280**	**6 720**
Investing activities			
Purchase of shop equipment	(12 000)		
Net cash used in Investing activities	**(12 000)**	**–**	**–**
Financing activities			
Capital contribution	8 000		
Loan – Coastal Bank		10 000	
Drawings	(2 000)	(2 000)	(2 000)
Loan repayment			(1 000)
Net cash from Financing activities	**6 000**	**8 000**	**(3 000)**
Net increase/(decrease) in cash	**(7 900)**	**9 280**	**3 720**
Bank balance at start	15 000	7 100	16 380
Bank balance at end	**7 100**	**16 380**	**20 100**

Note that the $12 000 shop equipment sits in **Investing** at its GST-exclusive cost, while its $1 200 GST is inside the July **GST paid** of $1 600 in Operating — which is why July's GST paid is nearly four times August's.

Read the bottom two rows across: July's closing Bank of **$7 100** becomes August's opening balance, and August's closing **$16 380** becomes September's opening balance. Although the quarter ends comfortably at $20 100, the

consecutive-period view reveals what a quarterly total would hide — July's operating cash is **negative** (−$1 900) and, after buying the equipment, the Bank dips to its lowest point of $7 100 at the end of July. That is exactly the timing information the owner needs before committing to the equipment or lifting drawings.

Worked examples (scaffolded)

Example 1 — a collection schedule and the receipts from Accounts Receivable

Meadowbrook Traders budgets credit sales (plus GST) of $30 000 in April, $40 000 in May and $50 000 in June. Its collection pattern is **70% in the month of sale and 30% in the following month**. Prepare the collection schedule and calculate the budgeted Receipts from Accounts Receivable for May and June.

Working	Comment
GST-inclusive credit sales: April $33 000, May $44 000, June $55 000 (each ex-GST figure × 1.1).	The collection pattern is applied to the **GST-inclusive** total the customer owes, not the ex-GST sales figure.
May = 30% of April + 70% of May = 30% × $33 000 + 70% × $44 000 = $9 900 + $30 800 = **$40 700**.	May collects the 30% tail of April's sales plus 70% of its own sales.
June = 30% of May + 70% of June = 30% × $44 000 + 70% × $55 000 = $13 200 + $38 500 = **$51 700**.	Each month mixes the tail of the previous month with the bulk of its own.

Collection schedule — Receipts from Accounts Receivable

Credit sales (incl. GST)	May $	Jun $
April 33 000 — 30% collected in May	9 900	
May 44 000 — 70% May, 30% June	30 800	13 200
June 55 000 — 70% June		38 500
Receipts from Accounts Receivable	**40 700**	**51 700**

Example 2 — a two-month Budgeted Cash Flow Statement, rolling the Bank forward

Harborline Supplies has a **Bank** balance of $6 000 on 1 August 2025 and budgets month by month for August and September. Budgeted Receipts from Accounts Receivable are $40 000 (Aug) and $45 000 (Sep); Payments to Accounts Payable $28 000 (Aug) and $30 000 (Sep). Each month it will pay wages $6 000 and rent $2 500 plus $250 GST; advertising is $800 plus $80 GST (Aug) and $700 plus $70 GST (Sep); interest expense $300 each month. In August the owner contributes $4 000 capital; in September the business buys equipment for $5 000 plus $500 GST; drawings are $1 500 each month. Prepare the Budgeted Cash Flow Statement over the two months.

Working	Comment
GST paid, Aug = $250 (rent) + $80 (advertising) = **$330**. **GST paid, Sep** = $250 + $70 + $500 (equipment) = **$820**.	The receipts and payments are GST-inclusive lumps, so they add nothing to GST paid; September's figure jumps because of the equipment.
Net Operating, Aug = $40 000 − ($28 000 + $6 000 + $2 500 + $800 + $300 + $330) = $40 000 − $37 930 = **$2 070**.	Operating inflows less operating outflows for the month.
Net Operating, Sep = $45 000 − ($30 000 + $6 000 + $2 500 + $700 + $300 + $820) = $45 000 − $40 320 = **$4 680**.	The same classification, one column to the right.
Net change, Aug = $2 070 (op) + $0 (inv) + $2 500 (fin: $4 000 − $1 500) = **$4 570**. Closing Bank = $6 000 + $4 570 = **$10 570**.	The three activities re-sum to the net change; add the opening balance.
Net change, Sep = $4 680 − $5 000 (equipment, GST-exclusive) − $1 500 (drawings) = **($1 820)**. Closing	September **opens** on August's $10 570 closing balance — the roll-forward.

Working	Comment
Bank = $10 570 − $1 820 = **$8 750**.	

Budgeted Cash Flow Statement for the two months ending 30 September 2025

Harborline Supplies	Aug $	Sep $
Operating activities		
Receipts from Accounts Receivable	40 000	45 000
Payments to Accounts Payable	(28 000)	(30 000)
Wages	(6 000)	(6 000)
Rent expense	(2 500)	(2 500)
Advertising	(800)	(700)
Interest expense	(300)	(300)
GST paid	(330)	(820)
Net cash from Operating activities	**2 070**	**4 680**
Investing activities		
Purchase of equipment		(5 000)
Net cash used in Investing activities	**–**	**(5 000)**
Financing activities		
Capital contribution	4 000	
Drawings	(1 500)	(1 500)
Net cash from Financing activities	**2 500**	**(1 500)**
Net increase/(decrease) in cash	**4 570**	**(1 820)**
Bank balance at start	6 000	10 570
Bank balance at end	**10 570**	**8 750**

Worked examples (unscaffolded)

Example 3 — a quarter with a three-month collection pattern

Rivergum Wholesalers budgets month by month for the quarter ending 31 December 2025; its **Bank** balance on 1 October is $10 000. Budgeted credit sales (plus GST) are $24 000 (Aug), $32 000 (Sep), $40 000 (Oct), $48 000 (Nov) and $60 000 (Dec), collected **50% in the month of sale, 30% in the next month and 20% in the third month**. Budgeted credit purchases (plus GST) are $16 000 (Sep), $24 000 (Oct), $28 000 (Nov) and $32 000 (Dec), paid **60% in the month of purchase and 40% the following month**. Each month it pays wages $7 000, rent $3 000 plus $300 GST and interest expense $500. In October it receives a $12 000 loan from MetroBank; in November it buys a vehicle for $15 000 plus $1 500 GST; drawings are $2 500 each month. Prepare the Budgeted Cash Flow Statement.

GST-inclusive credit sales are $26 400, $35 200, $44 000, $52 800 and $66 000. Because the pattern runs over **three** months, October's receipts still include a 20% tail from **August**:

Collection schedule — Receipts from Accounts Receivable

Credit sales (incl. GST)	Oct $	Nov $	Dec $
August 26 400 — 20%	5 280		

Credit sales (incl. GST)	Oct $	Nov $	Dec $
collected in October			
September 35 200 — 30% October, 20% November	10 560	7 040	
October 44 000 — 50% Oct, 30% Nov, 20% Dec	22 000	13 200	8 800
November 52 800 — 50% Nov, 30% Dec		26 400	15 840
December 66 000 — 50% December			33 000
Receipts from Accounts Receivable	**37 840**	**46 640**	**57 640**

GST-inclusive credit purchases are $17 600, $26 400, $30 800 and $35 200:

Payment schedule — Payments to Accounts Payable

Credit purchases (incl. GST)	Oct $	Nov $	Dec $
September 17 600 — 40% paid in October	7 040		
October 26 400 — 60% October, 40% November	15 840	10 560	
November 30 800 — 60% November, 40% December		18 480	12 320
December 35 200 — 60% December			21 120
Payments to Accounts Payable	**22 880**	**29 040**	**33 440**

GST paid is $300 in October and December (rent only) and $300 + $1 500 = $1 800 in November, when the vehicle is bought.

Budgeted Cash Flow Statement for the quarter ending 31 December 2025 (by month)

Rivergum Wholesalers	Oct $	Nov $	Dec $
Operating activities			
Receipts from Accounts Receivable	37 840	46 640	57 640
Payments to Accounts Payable	(22 880)	(29 040)	(33 440)
Wages	(7 000)	(7 000)	(7 000)
Rent expense	(3 000)	(3 000)	(3 000)
Interest expense	(500)	(500)	(500)
GST paid	(300)	(1 800)	(300)
Net cash from Operating activities	**4 160**	**5 300**	**13 400**
Investing activities			
Purchase of vehicle		(15 000)	
Net cash used in	**–**	**(15 000)**	**–**

Rivergum Wholesalers	Oct $	Nov $	Dec $
Investing activities			
Financing activities			
Loan – MetroBank	12 000		
Drawings	(2 500)	(2 500)	(2 500)
Net cash from Financing activities	**9 500**	**(2 500)**	**(2 500)**
Net increase/(decrease) in cash	**13 660**	**(12 200)**	**10 900**
Bank balance at start	10 000	23 660	11 460
Bank balance at end	**23 660**	**11 460**	**22 360**

∴ the budgeted closing Bank is $23 660 at 31 October, $11 460 at 30 November and $22 360 at 31 December. The November vehicle purchase — $15 000 of cash plus $1 500 of GST inside GST paid, $16 500 of cash in all — is affordable only because October's strong close ($23 660) rolls forward to fund it, a decision the consecutive-period budget makes clear. Note too that the three-month collection pattern slows the cash: in October only half of that month's own sales has been collected, with the rest still arriving from August and September.

Example 4 — budgeting quarter by quarter, and solving for a missing figure

Fernvale Trading budgets **quarter by quarter** for the nine months to 30 September, opening on $20 000 of **Bank** at 1 January. It budgets total receipts of $150 000 (Q1), $160 000 (Q2) and $180 000 (Q3), and total payments of $130 000 (Q1) and $150 000 (Q3). Its Q2 total payments have not yet been listed, but the owner has set a **target closing Bank of $35 000 at the end of Q2**. Calculate the Q2 budgeted total payments and complete the roll-forward.

Q1 closes at $20 000 + ($150 000 − $130 000) = **$40 000**, which becomes Q2's opening balance. For Q2, the net change must be $35 000 − $40 000 = **($5 000)**. Since net change = receipts − payments, the payments are receipts − net change = $160 000 − (−$5 000) = **$165 000**. Q3 then opens on $35 000 and closes at $35 000 + ($180 000 − $150 000) = **$65 000**.

Budgeted Cash Flow Statement for the nine months ending 30 September (by quarter)

Fernvale Trading	Q1 $	Q2 $	Q3 $
Total budgeted receipts	150 000	160 000	180 000
Total budgeted payments	(130 000)	(165 000)	(150 000)
Net increase/(decrease) in cash	**20 000**	**(5 000)**	**30 000**
Bank balance at start	20 000	40 000	35 000
Bank balance at end	**40 000**	**35 000**	**65 000**

∴ Q2 budgeted total payments are $165 000, and the budgeted closing Bank rolls forward $40 000 → $35 000 → $65 000.

Practice questions — scaffolded

Question 1

Cedar Ridge Traders budgets credit sales (plus GST) of $50 000 in May, $60 000 in June and $70 000 in July. Its collection pattern is **60% in the month of sale and 40% in the following month**.

a. State the GST-inclusive credit sales for May, June and July.

b. Calculate the budgeted Receipts from Accounts Receivable for June and July.

c. Prepare the collection schedule for June and July.

Question 2

Stonegate Wholesale budgets credit purchases of inventory (plus GST) of $40 000 in March, $50 000 in April and $60 000 in May. Its payment pattern is **30% in the month of purchase and 70% in the following month**.

a. State the GST-inclusive credit purchases for March, April and May.

b. Calculate the budgeted Payments to Accounts Payable for April and May.

c. Prepare the payment schedule for April and May.

Question 3

Brightwater Trading has a **Bank** balance of $8 000 on 1 June and budgets month by month for June and July. Budgeted Receipts from Accounts Receivable are $38 000 (Jun) and $42 000 (Jul); Payments to Accounts Payable $25 000 (Jun) and $27 000 (Jul). Each month it pays wages $5 000 and rent $2 000 plus $200 GST; advertising is $500 plus $50 GST (Jun) and $600 plus $60 GST (Jul). In June the owner contributes $5 000 capital; in July the business buys equipment for $4 000 plus $400 GST; drawings are $1 000 each month.

a. Calculate the budgeted GST paid for June and for July.

b. Calculate the net increase/(decrease) in cash, and the closing Bank balance, for June and for July.

c. Prepare the Budgeted Cash Flow Statement over the two months.

Question 4

Oakhaven Supplies has a **Bank** balance of $12 000 on 1 July and budgets month by month for the quarter ending 30 September. Budgeted credit sales (plus GST) are $50 000 (Jun), $60 000 (Jul), $70 000 (Aug) and $80 000 (Sep), collected **40% in the month of sale and 60% the following month**. Payments to Accounts Payable are budgeted at $46 200 (Jul), $52 800 (Aug) and $57 200 (Sep). Each month it pays wages $9 000, rent $3 500 plus $350 GST and interest expense $600. In July the owner contributes $5 000 capital; in August the business buys equipment for $13 000 plus $1 300 GST; drawings are $3 000 each month.

a. Calculate the budgeted Receipts from Accounts Receivable for July, August and September.

b. Calculate the net cash from Operating activities for each month.

c. Calculate the closing Bank balance at the end of each month.

Question 5

Willowdale Trading has a **Bank** balance of $5 000 on 1 October and budgets month by month for the quarter ending 31 December. Budgeted Receipts from Accounts Receivable are $30 000 (Oct), $32 000 (Nov) and $50 000 (Dec); Payments to Accounts Payable $24 000 (Oct), $26 000 (Nov) and $30 000 (Dec). Each month it pays wages $5 000 and rent $2 000 plus $200 GST, and the owner takes drawings of $2 000. In November the business buys a vehicle for $18 000 plus $1 800 GST.

a. Calculate the closing Bank balance at the end of each month.

b. Identify the month(s) in which the business is budgeted to have a bank overdraft.

c. State what a negative closing Bank balance means for the business, and one action the owner could take in response.

Question 6

Maplewood Traders has a **Bank** balance of $7 000 on 1 November and budgets month by month for November and December. It makes both cash and credit sales. Budgeted **cash sales** are $10 000 plus GST in November and $12 000 plus GST in December. Budgeted **credit sales** (plus GST) are $30 000 in October, $40 000 in November and $50 000 in December, collected **50% in the month of sale and 50% the following month**. Payments to Accounts Payable are $30 000 (Nov) and $33 000 (Dec); wages $6 000 and rent $2 500 plus $250 GST each month; drawings $2 000 each month.

a. Calculate the budgeted Receipts from Accounts Receivable for November and December.

b. Calculate the total budgeted operating inflows (cash sales, GST received and receipts from Accounts Receivable) for each month.

c. Prepare the Budgeted Cash Flow Statement over the two months.

Practice questions — unscaffolded

Question 7

Pinehurst Supplies has a **Bank** balance of $9 000 on 1 January and budgets month by month for January and February. Budgeted Receipts from Accounts Receivable are $44 000 (Jan) and $48 000 (Feb); Payments to Accounts Payable $30 000 (Jan) and $32 000 (Feb). Each month it pays wages $7 000, rent $3 000 plus $300 GST and interest expense $400. In January the owner contributes $5 000 capital; in February the business buys equipment for $6 000 plus $600 GST; drawings are $2 000 each month. Prepare the Budgeted Cash Flow Statement over the two months and state the closing Bank balance at the end of each month.

Question 8

Rosewood Wholesale budgets credit sales (plus GST) of $30 000 in January, $36 000 in February, $42 000 in March, $48 000 in April and $54 000 in May. Its collection pattern is **50% in the month of sale, 30% in the next month and 20% in the third month**. Prepare the collection schedule and calculate the budgeted Receipts from Accounts Receivable for March, April and May.

Question 9

Thornbury Trading budgets credit purchases of inventory (plus GST) of $25 000 in February, $30 000 in March, $35 000 in April and $40 000 in May. Its payment pattern is **40% in the month of purchase, 40% in the next month and 20% in the third month**. Prepare the payment schedule and calculate the budgeted Payments to Accounts Payable for April and May.

Question 10

Grovepark Traders has a **Bank** balance of $14 000 on 1 April and budgets month by month for the quarter ending 30 June. Budgeted credit sales (plus GST) are $60 000 (Mar), $70 000 (Apr), $80 000 (May) and $90 000 (Jun), collected **60% in the month of sale and 40% the following month**. Budgeted credit purchases (plus GST) are $40 000 (Mar), $50 000 (Apr), $50 000 (May) and $60 000 (Jun), paid **50% in the month of purchase and 50% the following month**. Each month it pays wages $10 000, rent $4 000 plus $400 GST, advertising $1 000 plus $100 GST and interest expense $700. In April it receives a $15 000 loan from Coastal Bank; in May it buys equipment for $12 000 plus $1 200 GST; drawings are $3 500 each month. Prepare the Budgeted Cash Flow Statement and state the closing Bank balance at 30 June.

Question 11

Ashgrove Trading has a **Bank** balance of $2 500 on 1 July and budgets month by month for the quarter ending 30 September. Budgeted Receipts from Accounts Receivable are $25 000 (Jul), $27 000 (Aug) and $40 000 (Sep); Payments to Accounts Payable $20 000 (Jul), $22 000 (Aug) and $24 000 (Sep). Each month it pays wages $4 000 and rent $1 500 plus $150 GST, and the owner takes drawings of $1 500. In August it buys shop fittings for $10 000 plus $1 000 GST. Prepare the Budgeted Cash Flow Statement, and explain how the roll-forward carries the business's cash shortage from one month into the next.

Question 12

Redcliffe Supplies budgets month by month and has a **Bank** balance of $11 000 on 1 May. For May it budgets receipts of $46 000 and payments of $40 000. For June it budgets receipts of $48 000 and a **target closing Bank of $12 000**. For July it budgets payments of $44 000 and a **target closing Bank of $20 000**. Using the roll-forward, calculate (a) the budgeted total payments for June and (b) the budgeted total receipts for July.

Question 13

Eaglemont Wholesalers budgets **quarter by quarter** for the financial year and has a **Bank** balance of $25 000 at the start of Q1. Budgeted total receipts are $300 000 (Q1), $320 000 (Q2), $340 000 (Q3) and $360 000 (Q4); budgeted

total payments are $280 000 (Q1), $350 000 (Q2), $300 000 (Q3) and $330 000 (Q4). Prepare the quarter-by-quarter Budgeted Cash Flow Statement and state the closing Bank balance at the end of each quarter.

Question 14

Foxglove Traders budgets credit sales (plus GST) of $44 000 in August and $60 000 in September. It is choosing between two collection patterns: **Pattern A** — 30% in the month of sale and 70% in the following month; and **Pattern B** — 70% in the month of sale and 30% in the following month. Calculate the budgeted Receipts from Accounts Receivable in **September** under each pattern, and discuss one implication for the business's budgeted cash position.

Question 15

Sunnybank Trading has a **Bank** balance of $10 000 on 1 September and budgets month by month for the quarter ending 30 November. Budgeted **cash sales** are $20 000 plus GST (Sep), $22 000 plus GST (Oct) and $24 000 plus GST (Nov). Budgeted **credit sales** (plus GST) are $28 000 (Aug), $36 000 (Sep), $46 000 (Oct) and $56 000 (Nov), collected **50% in the month of sale and 50% the following month**. Payments to Accounts Payable are $30 000 (Sep), $33 000 (Oct) and $36 000 (Nov); each month it pays wages $8 000, rent $3 000 plus $300 GST and advertising $1 000 plus $100 GST. In September the owner contributes $6 000 capital; in October the business buys equipment for $9 000 plus $900 GST; in November it receives an $8 000 loan from Riverside Bank; drawings are $2 500 each month. Prepare the Budgeted Cash Flow Statement and state the closing Bank balance at 30 November.

Question 16

Explain why, in a Budgeted Cash Flow Statement prepared over consecutive periods, the closing Bank balance of one period becomes the opening Bank balance of the next — and why this means the periods cannot be budgeted independently of one another.

Question 17

Explain why the budgeted Receipts from Accounts Receivable for a month are usually **different** from that month's budgeted credit sales, referring to both the collection pattern and GST.

Question 18

Grangewood Traders is preparing a Budgeted Cash Flow Statement to support an application for a bank loan. Its records show that credit sales are realistically collected **40% in the month of sale and 60% in the following month**, but the owner is considering budgeting on the assumption that **80%** is collected in the month of sale and only 20% the following month, to present a stronger closing Bank balance to the bank. Budgeted credit sales (plus GST) are $32 000 in the prior month and $56 000 in the current month. Calculate the budgeted Receipts from Accounts Receivable for the current month under each assumption, and discuss the ethical considerations involved in the owner's choice.

Answers

1.
    a. $55 000, $66 000, $77 000 b. June $61 600; July $72 600 c. see solutions
2.
    a. $44 000, $55 000, $66 000 b. April $47 300; May $58 300 c. see solutions
3.
    a. June $250; July $660 b. net change June $9 250, July $1 740; closing June $17 250, July $18 990 c. see solutions
4.
    a. $59 400, $70 400, $81 400 b. Jul ($250); Aug $2 850; Sep $10 750 c. $13 750, $600, $8 350
5.
    a. Oct $1 800; Nov ($21 200); Dec ($10 400) b. November and December c. see solutions
6.
    a. Nov $38 500; Dec $49 500 b. Nov $49 500; Dec $62 700 c. closing $15 750, then $34 700
7. Closing Bank: January $15 300; February $12 000
8. March $41 580; April $48 180; May $54 780
9. April $34 100; May $39 600
10. Closing Bank: Apr $32 400; May $28 100; Jun $42 500
11. Closing Bank: Jul $350; Aug ($12 800); Sep ($3 950) — overdraft in August and September
12.
    a. June payments $53 000 b. July receipts $52 000
13. Closing Bank: Q1 $45 000; Q2 $15 000; Q3 $55 000; Q4 $85 000
14. September: Pattern A $53 680; Pattern B $60 720 ($7 040 more under B) — see solutions
15. Closing Bank: Sep $28 300; Oct $39 800; Nov $79 400
16. See solutions
17. See solutions
18. Realistic (40/60) $45 760; optimistic (80/20) $56 320 ($10 560 higher) — see solutions

Fully-worked solutions

Question 1

a. GST-inclusive credit sales = ex-GST × 1.1: May $55 000, June $66 000, July $77 000.

b. June = 40% × $55 000 + 60% × $66 000 = $22 000 + $39 600 = **$61 600**. July = 40% × $66 000 + 60% × $77 000 = $26 400 + $46 200 = **$72 600**.

Collection schedule — Receipts from Accounts Receivable

Credit sales (incl. GST)	Jun $	Jul $
May 55 000 — 40% collected in June	22 000	
June 66 000 — 60% June, 40% July	39 600	26 400
July 77 000 — 60% July		46 200
Receipts from Accounts Receivable	**61 600**	**72 600**

Question 2

a. GST-inclusive credit purchases: March $44 000, April $55 000, May $66 000.

b. April = 70% × $44 000 + 30% × $55 000 = $30 800 + $16 500 = **$47 300**. May = 70% × $55 000 + 30% × $66 000 = $38 500 + $19 800 = **$58 300**.

Payment schedule — Payments to Accounts Payable

Credit purchases (incl. GST)	Apr $	May $
March 44 000 — 70% paid in April	30 800	
April 55 000 — 30% April, 70% May	16 500	38 500
May 66 000 — 30% May		19 800
Payments to Accounts Payable	**47 300**	**58 300**

Question 3

a. GST paid gathers the GST on the rent and advertising, plus the GST on the equipment in the month it is bought: June = $200 + $50 = **$250**; July = $200 + $60 + $400 = **$660**.

b. June: Operating = $38 000 − ($25 000 + $5 000 + $2 000 + $500 + $250) = $5 250; Financing = $5 000 − $1 000 = $4 000; net change = $5 250 + $4 000 = **$9 250**; closing = $8 000 + $9 250 = **$17 250**. July: Operating = $42 000 − ($27 000 + $5 000 + $2 000 + $600 + $660) = $6 740; Investing ($4 000); Financing ($1 000); net change = $6 740 − $4 000 − $1 000 = **$1 740**; closing = $17 250 + $1 740 = **$18 990**.

Budgeted Cash Flow Statement for the two months ending 31 July

Brightwater Trading	Jun $	Jul $
Operating activities		
Receipts from Accounts Receivable	38 000	42 000
Payments to Accounts Payable	(25 000)	(27 000)
Wages	(5 000)	(5 000)
Rent expense	(2 000)	(2 000)
Advertising	(500)	(600)
GST paid	(250)	(660)
Net cash from Operating activities	**5 250**	**6 740**
Investing activities		
Purchase of equipment		(4 000)
Net cash used in Investing activities	**–**	**(4 000)**
Financing activities		
Capital contribution	5 000	
Drawings	(1 000)	(1 000)
Net cash from Financing activities	**4 000**	**(1 000)**
Net increase/(decrease) in cash	**9 250**	**1 740**
Bank balance at start	8 000	17 250
Bank balance at end	**17 250**	**18 990**

Question 4

a. GST-inclusive credit sales: June $55 000, July $66 000, August $77 000, September $88 000. July = 40% × $66 000 + 60% × $55 000 = $26 400 + $33 000 = **$59 400**. August = 40% × $77 000 + 60% × $66 000 = $30 800 + $39 600 = **$70 400**. September = 40% × $88 000 + 60% × $77 000 = $35 200 + $46 200 = **$81 400**.

b. GST paid = $350 (rent) each month, plus $1 300 on the equipment in August, so $350, $1 650 and $350. Net cash from Operating = receipts − (Payments to AP + wages + rent + interest + GST paid): July = $59 400 − ($46 200 + $9 000 + $3 500 + $600 + $350) = $59 400 − $59 650 = **($250)**. August = $70 400 − ($52 800 + $9 000 + $3 500 + $600 + $1 650) = $70 400 − $67 550 = **$2 850**. September = $81 400 − ($57 200 + $9 000 + $3 500 + $600 + $350) = $81 400 − $70 650 = **$10 750**.

c. Financing: July $5 000 − $3 000 = $2 000; August ($3 000); September ($3 000). Investing: August ($13 000) — the GST-exclusive cost, its $1 300 GST already sitting in August's GST paid. July net change = −$250 + $2 000 = $1 750; closing = $12 000 + $1 750 = **$13 750**. August net change = $2 850 − $13 000 − $3 000 = ($13 150); closing = $13 750 − $13 150 = **$600**. September net change = $10 750 − $3 000 = $7 750; closing = $600 + $7 750 = **$8 350**.

Budgeted Cash Flow Statement for the quarter ending 30 September (by month)

Oakhaven Supplies	Jul $	Aug $	Sep $
Operating activities			
Receipts from Accounts Receivable	59 400	70 400	81 400
Payments to Accounts Payable	(46 200)	(52 800)	(57 200)
Wages	(9 000)	(9 000)	(9 000)
Rent expense	(3 500)	(3 500)	(3 500)
Interest expense	(600)	(600)	(600)
GST paid	(350)	(1 650)	(350)
Net cash from Operating activities	**(250)**	**2 850**	**10 750**
Investing activities			
Purchase of equipment		(13 000)	
Net cash used in Investing activities	**–**	**(13 000)**	**–**
Financing activities			
Capital contribution	5 000		
Drawings	(3 000)	(3 000)	(3 000)
Net cash from Financing activities	**2 000**	**(3 000)**	**(3 000)**
Net increase/(decrease) in cash	**1 750**	**(13 150)**	**7 750**
Bank balance at start	12 000	13 750	600
Bank balance at end	**13 750**	**600**	**8 350**

The business is budgeted to fall to just $600 at the end of August — a warning that the timing of the equipment purchase ($13 000 of cash in Investing plus $1 300 of GST in Operating) leaves almost no cushion.

Question 5

a. GST paid = $200 (rent) each month, plus $1 800 on the vehicle in November, so $200, $2 000 and $200. Operating: Oct $30 000 − ($24 000 + $5 000 + $2 000 + $200) = ($1 200); Nov $32 000 − ($26 000 + $5 000 + $2 000 + $2 000) = ($3 000); Dec $50 000 − ($30 000 + $5 000 + $2 000 + $200) = $12 800. Financing ($2 000) each month; Investing Nov ($18 000). October net change = −$1 200 − $2 000 = ($3 200); closing = $5

000 − $3 200 = **$1 800**. November net change = −$3 000 − $18 000 − $2 000 = ($23 000); closing = $1 800 − $23 000 = **($21 200)**. December net change = $12 800 − $2 000 = $10 800; closing = −$21 200 + $10 800 = **($10 400)**.

b. The business is budgeted to be in **bank overdraft** in **November and December** (a negative closing Bank balance).

c. A negative closing Bank means the business plans to spend more cash than it has, so it will be **overdrawn** — the Bank becomes a current liability (a bank overdraft) rather than an asset. The owner could act in advance: **arrange an overdraft facility** with the bank, **defer the vehicle purchase** (or finance it with a loan rather than cash), **reduce drawings**, or **negotiate faster collection from customers / slower payment to suppliers** to lift the cash available in November.

Question 6

a. GST-inclusive credit sales: October $33 000, November $44 000, December $55 000. November = 50% × $44 000 + 50% × $33 000 = $22 000 + $16 500 = **$38 500**. December = 50% × $55 000 + 50% × $44 000 = $27 500 + $22 000 = **$49 500**.

b. GST received = 10% of the cash sales = $1 000 (Nov) and $1 200 (Dec). Total operating inflows: November = $10 000 + $1 000 + $38 500 = **$49 500**; December = $12 000 + $1 200 + $49 500 = **$62 700**.

c. GST paid = $250 (the GST on the rent) each month.

Budgeted Cash Flow Statement for the two months ending 31 December

Maplewood Traders	Nov $	Dec $
Operating activities		
Cash sales	10 000	12 000
Receipts from Accounts Receivable	38 500	49 500
GST received	1 000	1 200
Payments to Accounts Payable	(30 000)	(33 000)
Wages	(6 000)	(6 000)
Rent expense	(2 500)	(2 500)
GST paid	(250)	(250)
Net cash from Operating activities	**10 750**	**20 950**
Financing activities		
Drawings	(2 000)	(2 000)
Net cash from Financing activities	**(2 000)**	**(2 000)**
Net increase/(decrease) in cash	**8 750**	**18 950**
Bank balance at start	7 000	15 750
Bank balance at end	**15 750**	**34 700**

Only the **cash** sales generate a GST received line; the GST on the credit sales is already inside the Receipts from Accounts Receivable, because the customer pays the goods and the GST in one amount.

Question 7

GST paid = $300 (rent) in January and $300 + $600 (equipment) = $900 in February. Operating: Jan $44 000 − ($30 000 + $7 000 + $3 000 + $400 + $300) = $3 300; Feb $48 000 − ($32 000 + $7 000 + $3 000 + $400 + $900) = $4 700. Financing: Jan $5 000 − $2 000 = $3 000; Feb ($2 000). Investing: Feb ($6 000). January net change = $3 300 +

$3 000 = $6 300; closing = $9 000 + $6 300 = **$15 300**. February net change = $4 700 − $6 000 − $2 000 = ($3 300); closing = $15 300 − $3 300 = **$12 000**.

Budgeted Cash Flow Statement for the two months ending 28 February

Pinehurst Supplies	Jan $	Feb $
Operating activities		
Receipts from Accounts Receivable	44 000	48 000
Payments to Accounts Payable	(30 000)	(32 000)
Wages	(7 000)	(7 000)
Rent expense	(3 000)	(3 000)
Interest expense	(400)	(400)
GST paid	(300)	(900)
Net cash from Operating activities	**3 300**	**4 700**
Investing activities		
Purchase of equipment		(6 000)
Net cash used in Investing activities	**–**	**(6 000)**
Financing activities		
Capital contribution	5 000	
Drawings	(2 000)	(2 000)
Net cash from Financing activities	**3 000**	**(2 000)**
Net increase/(decrease) in cash	**6 300**	**(3 300)**
Bank balance at start	9 000	15 300
Bank balance at end	**15 300**	**12 000**

Closing Bank: **$15 300** at 31 January and **$12 000** at 28 February.

Question 8

GST-inclusive credit sales: Jan $33 000, Feb $39 600, Mar $46 200, Apr $52 800, May $59 400. March = 50% × $46 200 + 30% × $39 600 + 20% × $33 000 = $23 100 + $11 880 + $6 600 = **$41 580**. April = 50% × $52 800 + 30% × $46 200 + 20% × $39 600 = $26 400 + $13 860 + $7 920 = **$48 180**. May = 50% × $59 400 + 30% × $52 800 + 20% × $46 200 = $29 700 + $15 840 + $9 240 = **$54 780**.

Collection schedule — Receipts from Accounts Receivable

Credit sales (incl. GST)	Mar $	Apr $	May $
January 33 000 — 20% collected in March	6 600		
February 39 600 — 30% March, 20% April	11 880	7 920	
March 46 200 — 50% March, 30% April, 20% May	23 100	13 860	9 240
April 52 800 — 50% April, 30% May		26 400	15 840

Credit sales (incl. GST)	Mar $	Apr $	May $
May 59 400 — 50% May			29 700
Receipts from Accounts Receivable	**41 580**	**48 180**	**54 780**

Question 9

GST-inclusive credit purchases: Feb $27 500, Mar $33 000, Apr $38 500, May $44 000. April = 40% × $38 500 + 40% × $33 000 + 20% × $27 500 = $15 400 + $13 200 + $5 500 = **$34 100**. May = 40% × $44 000 + 40% × $38 500 + 20% × $33 000 = $17 600 + $15 400 + $6 600 = **$39 600**.

Payment schedule — Payments to Accounts Payable

Credit purchases (incl. GST)	Apr $	May $
February 27 500 — 20% paid in April	5 500	
March 33 000 — 40% April, 20% May	13 200	6 600
April 38 500 — 40% April, 40% May	15 400	15 400
May 44 000 — 40% May		17 600
Payments to Accounts Payable	**34 100**	**39 600**

Question 10

GST-inclusive credit sales: Mar $66 000, Apr $77 000, May $88 000, Jun $99 000. April = 60% × $77 000 + 40% × $66 000 = $46 200 + $26 400 = **$72 600**. May = 60% × $88 000 + 40% × $77 000 = $52 800 + $30 800 = **$83 600**. June = 60% × $99 000 + 40% × $88 000 = $59 400 + $35 200 = **$94 600**. GST-inclusive credit purchases: Mar $44 000, Apr $55 000, May $55 000, Jun $66 000 (paid 50%/50%): Payments to Accounts Payable = $49 500 (Apr), $55 000 (May), $60 500 (Jun). GST paid = $400 (rent) + $100 (advertising) = $500 in April and June, and $500 + $1 200 (equipment) = $1 700 in May.

Budgeted Cash Flow Statement for the quarter ending 30 June (by month)

Grovepark Traders	Apr $	May $	Jun $
Operating activities			
Receipts from Accounts Receivable	72 600	83 600	94 600
Payments to Accounts Payable	(49 500)	(55 000)	(60 500)
Wages	(10 000)	(10 000)	(10 000)
Rent expense	(4 000)	(4 000)	(4 000)
Advertising	(1 000)	(1 000)	(1 000)
Interest expense	(700)	(700)	(700)
GST paid	(500)	(1 700)	(500)
Net cash from Operating activities	**6 900**	**11 200**	**17 900**
Investing activities			
Purchase of equipment		(12 000)	

Grovepark Traders	Apr $	May $	Jun $
Net cash used in Investing activities	**–**	**(12 000)**	**–**
Financing activities			
Loan – Coastal Bank	15 000		
Drawings	(3 500)	(3 500)	(3 500)
Net cash from Financing activities	**11 500**	**(3 500)**	**(3 500)**
Net increase/(decrease) in cash	**18 400**	**(4 300)**	**14 400**
Bank balance at start	14 000	32 400	28 100
Bank balance at end	**32 400**	**28 100**	**42 500**

Closing Bank at 30 June = **$42 500**.

Question 11

GST paid = $150 (rent) in July and September, and $150 + $1 000 (shop fittings) = $1 150 in August. Operating: Jul $25 000 − ($20 000 + $4 000 + $1 500 + $150) = ($650); Aug $27 000 − ($22 000 + $4 000 + $1 500 + $1 150) = ($1 650); Sep $40 000 − ($24 000 + $4 000 + $1 500 + $150) = $10 350. Financing ($1 500) each month; Investing Aug ($10 000). July net change = −$650 − $1 500 = ($2 150); closing = $2 500 − $2 150 = **$350**. August net change = −$1 650 − $10 000 − $1 500 = ($13 150); closing = $350 − $13 150 = **($12 800)**. September net change = $10 350 − $1 500 = $8 850; closing = −$12 800 + $8 850 = **($3 950)**.

Budgeted Cash Flow Statement for the quarter ending 30 September (by month)

Ashgrove Trading	Jul $	Aug $	Sep $
Operating activities			
Receipts from Accounts Receivable	25 000	27 000	40 000
Payments to Accounts Payable	(20 000)	(22 000)	(24 000)
Wages	(4 000)	(4 000)	(4 000)
Rent expense	(1 500)	(1 500)	(1 500)
GST paid	(150)	(1 150)	(150)
Net cash from Operating activities	**(650)**	**(1 650)**	**10 350**
Investing activities			
Purchase of shop fittings		(10 000)	
Net cash used in Investing activities	**–**	**(10 000)**	**–**
Financing activities			
Drawings	(1 500)	(1 500)	(1 500)
Net cash from Financing activities	**(1 500)**	**(1 500)**	**(1 500)**
Net increase/(decrease) in cash	**(2 150)**	**(13 150)**	**8 850**
Bank balance at start	2 500	350	(12 800)
Bank balance at end	**350**	**(12 800)**	**(3 950)**

The roll-forward carries the shortage from one month into the next. July's operating cash is already negative, so the Bank closes at a bare $350; because that $350 is August's opening balance, the shop fittings — $10 000 in Investing plus $1 000 of GST inside August's GST paid — drive the Bank to ($12 800). September's $8 850 net inflow reduces — but does not clear — that deficit, because it opens on the ($12 800) carried forward, leaving the business still $3 950 overdrawn at 30 September. A cash problem in one period is not "reset" at the start of the next; it is inherited.

Question 12

a. May closes at $11 000 + ($46 000 − $40 000) = $17 000, so June opens on $17 000. June's net change must be $12 000 − $17 000 = ($5 000), so **June payments = receipts − net change = $48 000 − (−$5 000) = $53 000**.

b. June closes at the target $12 000, so July opens on $12 000. July's net change must be $20 000 − $12 000 = $8 000, so **July receipts = payments + net change = $44 000 + $8 000 = $52 000**.

Question 13

Each quarter's closing Bank rolls forward as the next quarter's opening balance.

Budgeted Cash Flow Statement for the year (by quarter)

Eaglemont Wholesalers	Q1 $	Q2 $	Q3 $	Q4 $
Total budgeted receipts	300 000	320 000	340 000	360 000
Total budgeted payments	(280 000)	(350 000)	(300 000)	(330 000)
Net increase/(decrease) in cash	**20 000**	**(30 000)**	**40 000**	**30 000**
Bank balance at start	25 000	45 000	15 000	55 000
Bank balance at end	**45 000**	**15 000**	**55 000**	**85 000**

Closing Bank: **$45 000** (Q1), **$15 000** (Q2), **$55 000** (Q3), **$85 000** (Q4). The consecutive- period view shows the cash dipping to $15 000 at the end of Q2 before recovering — a low point a single annual figure of $85 000 would conceal.

Question 14

GST-inclusive credit sales: August $48 400, September $66 000. **Pattern A** (30% month of sale, 70% next): September = 30% × $66 000 + 70% × $48 400 = $19 800 + $33 880 = **$53 680**. **Pattern B** (70% month of sale, 30% next): September = 70% × $66 000 + 30% × $48 400 = $46 200 + $14 520 = **$60 720**. Pattern B brings in **$7 040 more** cash in September, because a larger share of September's own (larger) sales is collected in the same month rather than a month later. For the business's budgeted cash position, faster collection lifts the closing Bank sooner and every later opening balance that rolls forward from it, easing the timing of payments to suppliers, wages and the owner. The trade-off is that a faster-collection pattern must be **realistic** — usually earned by offering customers an early-settlement discount or tighter credit terms — so the improved timing may come at the cost of lower total receipts or extra discount expense, which the owner must weigh when preparing the budget.

Question 15

GST-inclusive credit sales: Aug $30 800, Sep $39 600, Oct $50 600, Nov $61 600 (collected 50%/50%): Receipts from Accounts Receivable = $35 200 (Sep), $45 100 (Oct), $56 100 (Nov). GST received = 10% of the cash sales = $2 000 (Sep), $2 200 (Oct), $2 400 (Nov). GST paid = $300 (rent) + $100 (advertising) = $400 in September and November, and $400 + $900 (equipment) = $1 300 in October.

Budgeted Cash Flow Statement for the quarter ending 30 November (by month)

Sunnybank Trading	Sep $	Oct $	Nov $
Operating activities			
Cash sales	20 000	22 000	24 000
Receipts from Accounts Receivable	35 200	45 100	56 100
GST received	2 000	2 200	2 400
Payments to Accounts Payable	(30 000)	(33 000)	(36 000)
Wages	(8 000)	(8 000)	(8 000)
Rent expense	(3 000)	(3 000)	(3 000)
Advertising	(1 000)	(1 000)	(1 000)
GST paid	(400)	(1 300)	(400)
Net cash from Operating activities	**14 800**	**23 000**	**34 100**
Investing activities			
Purchase of equipment		(9 000)	
Net cash used in Investing activities	**–**	**(9 000)**	**–**
Financing activities			
Capital contribution	6 000		
Loan – Riverside Bank			8 000
Drawings	(2 500)	(2 500)	(2 500)
Net cash from Financing activities	**3 500**	**(2 500)**	**5 500**
Net increase/(decrease) in cash	**18 300**	**11 500**	**39 600**
Bank balance at start	10 000	28 300	39 800
Bank balance at end	**28 300**	**39 800**	**79 400**

Closing Bank at 30 November = **$79 400**.

Question 16

A Budgeted Cash Flow Statement records the movement of one continuous pool of cash — the **Bank** account. The closing balance of a period is not a paper figure that is discarded when the period ends; it is the **actual cash the business still holds**, which it physically carries into the next period. That cash is therefore the amount available at the *start* of the next period — its opening balance. Expressed as the roll-forward, **closing Bank = opening Bank + net change**, and **the opening Bank of a period = the closing Bank of the previous period**.

Because each opening balance is inherited from the period before, the periods are **links in a chain, not independent snapshots**. A change anywhere — a receipt that arrives a month later than assumed, an extra payment, or simply an arithmetic error — alters that period's closing balance, which then alters the opening balance of every subsequent period and hence all their closing balances. This is exactly why a consecutive-period budget is useful: it shows how a plan for one period affects the cash available in all the periods that follow, so the periods must be budgeted **together**, in order, rather than one at a time.

Question 17

The budgeted Receipts from Accounts Receivable for a month are the **cash actually collected** in that month, whereas the month's budgeted **credit sales** are the sales *made* in that month, whenever they are paid. The two differ for two reasons. First, the **collection pattern** spreads each month's credit sales over several months: only part of this month's sales is collected this month, while the receipt also includes amounts still being collected from **earlier** months' sales.

The cash received is therefore a *mixture* drawn from more than one month's sales, not this month's sales alone. Second, **GST**: credit customers owe, and pay, the **GST-inclusive** total, so the collection pattern is applied to the sales figure **plus 10% GST** — the cash collected includes GST that the sales figure (recorded exclusive of GST) does not. Only if a business collected 100% of each month's sales within the same month, and GST were ignored, would the receipt equal the month's credit sales.

Question 18

GST-inclusive credit sales: prior month $35 200, current month $61 600. **Realistic (40% / 60%):** current-month receipts = 40% × $61 600 + 60% × $35 200 = $24 640 + $21 120 = **$45 760**. **Optimistic (80% / 20%):** current-month receipts = 80% × $61 600 + 20% × $35 200 = $49 280 + $7 040 = **$56 320**.

The optimistic assumption raises the budgeted Receipts from Accounts Receivable by **$10 560** in this month alone, and because the budget rolls forward, that overstatement lifts the closing Bank of this period and the opening balance of every period after it — making the whole plan look more liquid than it is.

The owner's choice raises clear ethical concerns. The budget is being prepared **for a lender to rely on**, so it should be a **faithful representation** of what the business genuinely expects. The 80% collection rate is not **verifiable** — the business's own records show 40% — so budgeting on it presents figures the owner has no evidence for, in order to influence the bank's decision. If the loan is advanced on the strength of cash inflows that then arrive at the realistic pace, the business may be unable to meet the repayments, harming both the lender and the business, and the owner's credibility collapses once the actual collections are compared with the budget. Ethical budgeting uses the collection pattern the business's records support, discloses the assumption, and lets the bank assess the loan on cash the business can realistically expect — even if that produces a less flattering closing Bank balance.

Chapter 17 Budgets — 17C The Budgeted Income Statement and Balance Sheet

Theory

A **budget** is a **financial plan for a future period**, expressed in the form of accounting reports. Where the historical Income Statement and Balance Sheet report what a business **has** earned and **does** own and owe, their **budgeted** counterparts report what the owner **expects** to earn, own and owe in a period that has **not yet happened**. The two are built to the **same classified formats** — this is what lets the owner lay the budget beside the eventual actual result and see, line by line, where the business performed better or worse than planned (the **variance report** of section 17D). This section prepares the two **profit-and-position** budgets: the **Budgeted Income Statement** and the **Budgeted Balance Sheet**, and shows how they lock together with the Budgeted Cash Flow Statement (sections 17A–17B) into a single **integrated set** of budgeted reports.

The Budgeted Income Statement. This report sets out the business's **expected revenues** and **expected expenses** for a future period and arrives at the **budgeted Net Profit** — the profit the owner plans to make. It is built in exactly the ordered stages of the historical Income Statement (section 12B), every figure now an *estimate*:

- **Net Sales** — the revenue the business expects to earn from selling inventory, after any expected sales returns:

  Net Sales = budgeted Sales − budgeted Sales Returns

- **Gross Profit** — the expected profit from trading alone, after deducting the **expected Cost of Sales** (the cost price of the inventory the business plans to sell):

  Gross Profit = Net Sales − budgeted Cost of Sales

- **add Other Revenue** — expected revenue earned other than from selling inventory (for example **Interest revenue** or **Rent revenue**), added *after* Gross Profit.

- **less Expenses → Net Profit** — the other expected expenses of operating the business (**Wages**, **Rent expense**, **Advertising**, **Electricity**, **Depreciation** of non-current assets, **Interest expense**) are grouped, subtotalled and deducted:

  budgeted Net Profit = Gross Profit + budgeted Other Revenue − budgeted Total Expenses

  If the expected expenses exceed the expected gross profit and other revenue, the budget projects a **Net Loss** — an early warning that the plan, as it stands, will not be profitable. Its title states the business, the report and the *future* period: **"Budgeted Income Statement for the <period> ending <date>"**.

The Budgeted Balance Sheet. This report sets out the business's **expected financial position** — its **expected assets, liabilities and owner's equity** — **as at the budget date** (the last day of the budget period). It uses the five classified headings of the historical Balance Sheet (section 15C) — **Current Assets, Non-Current Assets, Current Liabilities, Non-Current Liabilities** and **Owner's Equity** — and it must still obey the **accounting equation**:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

so **Total Assets must equal Total Liabilities plus Owner's Equity**. Its title reads **"Budgeted Balance Sheet as at <date>"**. The **Owner's Equity** section reconstructs the **expected closing Capital** using the **budgeted** profit and drawings:

$$\text{Capital (closing, budgeted)} = \text{Capital (opening)} + \text{budgeted Net Profit} - \text{budgeted Drawings}$$

The opening Capital is a **known** figure (it is the actual closing Capital of the period just gone); the **budgeted Net Profit** is carried straight down from the Budgeted Income Statement; and the **budgeted Drawings** are the owner's planned withdrawals.

Deriving the budget figures. The individual expected balances in the Budgeted Balance Sheet are not guessed — they are **derived** from the opening balances and the planned activity for the period, using the same reconstruction logic used for the historical accounts:

- **Expected closing Accounts Receivable** = opening Accounts Receivable **+ budgeted credit sales (including GST) − budgeted receipts from accounts receivable**.

- **Expected closing Accounts Payable** = opening Accounts Payable **+ budgeted credit purchases (including GST) − budgeted payments to accounts payable**.
- **Expected closing Inventory** = opening Inventory **+ budgeted purchases − budgeted Cost of Sales**.
- **Expected closing Bank** = opening Bank **+ budgeted net cash flow** (the bottom line of the Budgeted Cash Flow Statement).
- **Budgeted Cost of Sales** is often derived from the planned **mark-up**: if the business marks its cost price up by a set percentage, then Sales = cost × (1 + mark-up), so **Cost of Sales = Sales ÷ (1 + mark-up)**.

The integrated set of budgeted reports. The three budgeted reports are **not independent** — they are one interlocking system, exactly as the historical reports are:

- the **budgeted Net Profit** from the Budgeted Income Statement flows into the **Owner's Equity** of the Budgeted Balance Sheet;
- the **budgeted closing Bank** from the Budgeted Cash Flow Statement becomes the **Bank** line of the Budgeted Balance Sheet;
- the **budgeted Cost of Sales** (an Income Statement expense) and the **budgeted purchases** together fix the **expected closing Inventory** in the Balance Sheet, while the **budgeted cash paid for inventory** (a Cash Flow outflow) drains the Bank — purchases and cash paid differ whenever inventory is bought on credit, and that difference is carried by the expected closing Accounts Payable;
- the **expected closing Accounts Receivable and Accounts Payable** tie the credit-sales and credit-purchase plans to the Balance Sheet.

Because they interlock, the set carries the same lesson as the historical reports: **budgeted Net Profit is not the budgeted increase in cash**. A business can plan a healthy profit yet plan for its Bank to *fall* — because budgeted **drawings**, a budgeted **loan repayment** and a budgeted **cash purchase of a non-current asset** all drain cash without being expenses, and because buying more inventory than is sold ties cash up in a larger Inventory asset. The Budgeted Income Statement answers *how well the owner plans to trade*; the Budgeted Cash Flow Statement answers *whether the plan will leave enough cash*.

Ethical considerations. A budget is prepared to be **acted on** — a **lender** may grant a loan on the strength of a budgeted profit, a prospective **buyer** may value the business on its projected results, and the **owner** may commit to spending on the basis of the plan. The owner therefore has an ethical duty to prepare the budget as a **faithful representation** of what is genuinely expected: the estimates must be **neutral** — free from bias — and grounded in evidence such as past results, firm orders and known price changes, not in wishful thinking. Two temptations are specific to budgeting. First, an **over-optimistic forecast** — budgeting sales well above any supportable level, or leaving out an expense the business knows it will incur — inflates the budgeted Net Profit and the budgeted position, presenting a plan that is not a neutral estimate but a flattering one. Second, a budget prepared for an outside reader can be **deliberately skewed** to obtain finance or a higher sale price. Both mislead the user: a lender may advance funds the business cannot in fact service, a buyer may overpay, and the owner's own planning is undermined because the budget no longer reflects reality — the variance report will later expose large unfavourable gaps that were built in from the start. Ethical budgeting uses **realistic, evidence-based estimates**, includes **every expected expense**, and lets the reader judge the plan on figures that can genuinely be met.

Worked model. Brightwater Cycles is a trading business. Its owner budgets, for the month ending 31 July 2026: **Sales $80 000** (no returns); **Cost of Sales $48 000**; and expenses of **Wages $10 000**, **Rent expense $3 000**, **Advertising $1 500** and **Depreciation – shop fittings $500**. The owner's Capital is expected to be **$100 000** at 1 July 2026, and the owner plans **drawings of $5 000**. At 31 July 2026 the business expects to hold: Bank $12 000; Accounts Receivable $22 000; Inventory $40 000; Shop fittings $30 000; Motor vehicle $50 000; Accounts Payable $18 000; GST Clearing $4 000; and a Loan from Metro Finance of $20 000 (non-current).

Budgeted Gross Profit is $80 000 − $48 000 = **$32 000**, and after expenses of $10 000 + $3 000 + $1 500 + $500 = $15 000 the **budgeted Net Profit is $17 000**. That $17 000 flows into Owner's Equity: expected closing Capital = $100 000 + $17 000 − $5 000 = **$112 000**.

Budgeted Income Statement for the month ending 31 July 2026

Brightwater Cycles	$	$
Revenue		
Sales	80 000	
Net Sales		**80 000**
less Cost of Sales		(48 000)
Gross Profit		**32 000**
less Expenses		
Wages	10 000	
Rent expense	3 000	
Advertising	1 500	
Depreciation – shop fittings	500	
Total expenses		**(15 000)**
Net Profit		**17 000**

Budgeted Balance Sheet of Brightwater Cycles as at 31 July 2026

	$	$
Current Assets		
Bank	12 000	
Accounts Receivable	22 000	
Inventory	40 000	74 000
Non-Current Assets		
Shop fittings	30 000	
Motor vehicle	50 000	80 000
Total Assets		154 000
Current Liabilities		
Accounts Payable	18 000	
GST Clearing	4 000	22 000
Non-Current Liabilities		
Loan – Metro Finance		20 000
Total Liabilities		42 000
Owner's Equity		
Capital (opening)	100 000	
Add Net Profit	17 000	
	117 000	
Less Drawings	5 000	112 000
Total Liabilities and Owner's Equity		154 000

Total Assets of $154 000 equal Total Liabilities plus Owner's Equity ($42 000 + $112 000), so the budget balances. The $17 000 budgeted Net Profit is the single figure that links the two reports: earned in the Budgeted Income Statement, it lifts the owner's expected Capital from $100 000 to $112 000 in the Budgeted Balance Sheet.

Worked examples (scaffolded)

Example 1 — preparing a Budgeted Income Statement

Meadowvale Homewares budgets the following for the month ending 31 August 2026: Sales $96 000; Sales Returns $4 000; Cost of Sales $55 000; Interest revenue $400; Wages $13 000; Rent expense $4 000; Advertising $1 200; Electricity $600; Depreciation – equipment $800; and Interest expense $400. Prepare the Budgeted Income Statement.

Working	Comment
Net Sales = Sales $96 000 − Sales Returns $4 000 = **$92 000**.	The budget begins with the revenue expected after the goods customers are expected to return.
Gross Profit = Net Sales $92 000 − Cost of Sales $55 000 = **$37 000**.	The expected Cost of Sales is the planned cost price of the inventory to be sold.
add Interest revenue $400 after Gross Profit.	Interest is expected on the Bank, not from selling inventory, so it is added *after* Gross Profit.
Total expenses = $13 000 + $4 000 + $1 200 + $600 + $800 + $400 = **$20 000**.	Every expected operating cost is grouped and subtotalled — including **Depreciation**, a non-cash expense.
Net Profit = $37 000 + $400 − $20 000 = **$17 400**.	Gross Profit plus expected other revenue less expected total expenses.

Budgeted Income Statement for the month ending 31 August 2026

Meadowvale Homewares	$	$
Revenue		
Sales	96 000	
less Sales Returns	(4 000)	
Net Sales		**92 000**
less Cost of Sales		(55 000)
Gross Profit		**37 000**
add Other Revenue		
Interest revenue	400	
Total other revenue		**400**
less Expenses		
Wages	13 000	
Rent expense	4 000	
Advertising	1 200	
Electricity	600	
Depreciation – equipment	800	
Interest expense	400	
Total expenses		**(20 000)**
Net Profit		**17 400**

Example 2 — preparing a Budgeted Balance Sheet, deriving the expected credit balances

Coastline Traders budgets a Net Profit of **$24 000** for the month ending 30 September 2026 (from its Budgeted Income Statement). The owner's Capital is expected to be $90 000 at 1 September 2026, and planned drawings are $30 000. At 30 September 2026 the business expects: Bank $10 000; Inventory $44 000; Prepaid insurance $4 000; Shop fittings $40 000; Delivery van $46 000; GST Clearing $6 000; and a Loan from Harbour Bank of $60 000 (repayable over five years). Its **Accounts Receivable** is to be derived from opening Accounts Receivable $22 000, budgeted credit sales (including GST) $33 000 and budgeted receipts from accounts receivable $29 000; its **Accounts Payable** from opening Accounts Payable $16 000, budgeted credit purchases (including GST) $26 400 and budgeted payments to accounts payable $22 400. Prepare the Budgeted Balance Sheet.

Working	Comment
Expected Accounts Receivable = \$22 000 + \$33 000 − \$29 000 = **\$26 000**.	Opening balance, plus the credit sales expected to be added, less the receipts expected to be collected.
Expected Accounts Payable = \$16 000 + \$26 400 − \$22 400 = **\$20 000**.	Opening balance, plus expected credit purchases, less expected payments.
Expected closing Capital = \$90 000 + Net Profit \$24 000 − Drawings \$30 000 = **\$84 000**.	The budgeted Net Profit is added; the budgeted drawings are deducted.
Current Assets = \$10 000 + \$26 000 + \$44 000 + \$4 000 = **\$84 000**; **Non-Current Assets** = \$40 000 + \$46 000 = **\$86 000**; Total Assets = **\$170 000**.	The derived Accounts Receivable takes its place among the current assets.
Total Liabilities = (\$20 000 + \$6 000) + \$60 000 = **\$86 000**; check \$86 000 + \$84 000 = **\$170 000**.	The budget balances: A = L + OE.

Budgeted Balance Sheet of Coastline Traders as at 30 September 2026

	\$	\$
Current Assets		
Bank	10 000	
Accounts Receivable	26 000	
Inventory	44 000	
Prepaid insurance	4 000	84 000
Non-Current Assets		
Shop fittings	40 000	
Delivery van	46 000	86 000
Total Assets		170 000
Current Liabilities		
Accounts Payable	20 000	
GST Clearing	6 000	26 000
Non-Current Liabilities		
Loan – Harbour Bank		60 000
Total Liabilities		86 000
Owner's Equity		
Capital (opening)	90 000	
Add Net Profit	24 000	
	114 000	
Less Drawings	30 000	84 000
Total Liabilities and Owner's Equity		170 000

Worked examples (unscaffolded)

Example 3 — deriving Cost of Sales from a mark-up, then a Budgeted Income Statement

Harrington Sports plans to sell inventory at a **mark-up of 80% on cost**. For the month ending 31 October 2026 it budgets Sales of \$90 000 (no returns) and Interest revenue of \$500, and expects expenses of Wages \$12 000, Rent expense \$3 500, Advertising \$1 000, Electricity \$500 and Depreciation – equipment \$1 000. Prepare the Budgeted Income Statement.

Because Sales = cost × (1 + 0.80) = cost × 1.8, the budgeted **Cost of Sales = $90 000 ÷ 1.8 = $50 000** (check: $50 000 × 1.8 = $90 000). Budgeted Gross Profit = $90 000 − $50 000 = $40 000; total expenses = $12 000 + $3 500 + $1 000 + $500 + $1 000 = $18 000; budgeted Net Profit = $40 000 + $500 − $18 000 = $22 500.

Budgeted Income Statement for the month ending 31 October 2026

Harrington Sports	$	$
Revenue		
Sales	90 000	
Net Sales		**90 000**
less Cost of Sales		(50 000)
Gross Profit		**40 000**
add Other Revenue		
Interest revenue	500	
Total other revenue		**500**
less Expenses		
Wages	12 000	
Rent expense	3 500	
Advertising	1 000	
Electricity	500	
Depreciation – equipment	1 000	
Total expenses		**(18 000)**
Net Profit		**22 500**

∴ the 80% mark-up fixes the budgeted Cost of Sales at $50 000, giving a budgeted Gross Profit of $40 000 and a budgeted Net Profit of $22 500 for October.

Example 4 — the integrated set of budgeted reports

Rosewood Trading prepares a full budget for the month ending 30 November 2026. Its Budgeted Income Statement uses: Sales $120 000; Sales Returns $5 000; Cost of Sales $69 000; Interest revenue $600; and expenses of Wages $16 000, Rent expense $4 500, Advertising $1 500, Electricity $700, Depreciation – shop fittings $1 300 and Interest expense $600. The owner's Capital is expected to be $110 000 at 1 November 2026, with planned drawings of $12 000. For the Budgeted Balance Sheet as at 30 November 2026 the business derives: Bank = opening $9 000 + budgeted net cash flow $5 000; Accounts Receivable = opening $24 000 + credit sales (incl. GST) $55 000 − receipts $51 000; Inventory = opening $46 000 + purchases $71 000 − Cost of Sales $69 000; Accounts Payable = opening $20 000 + credit purchases (incl. GST) $58 000 − payments $56 000. It also expects Prepaid rent $4 000; Shop fittings $50 000; Delivery van $40 000; GST Clearing $6 000; and a Loan from Delta Finance of $36 000 (non-current). Prepare both the Budgeted Income Statement and the Budgeted Balance Sheet, and show how they link.

Budgeted Income Statement: Net Sales = $120 000 − $5 000 = $115 000; Gross Profit = $115 000 − $69 000 = $46 000; total expenses = $16 000 + $4 500 + $1 500 + $700 + $1 300 + $600 = $24 600; budgeted Net Profit = $46 000 + $600 − $24 600 = **$22 000**. Derived balances: Bank = $9 000 + $5 000 = **$14 000**; Accounts Receivable = $24 000 + $55 000 − $51 000 = **$28 000**; Inventory = $46 000 + $71 000 − $69 000 = **$48 000**; Accounts Payable = $20 000 + $58 000 − $56 000 = **$22 000**. Expected closing Capital = $110 000 + $22 000 − $12 000 = **$120 000**.

Budgeted Income Statement for the month ending 30 November 2026

Rosewood Trading	$	$
Revenue		
Sales	120 000	
less Sales Returns	(5 000)	

Rosewood Trading	$	$
Net Sales		**115 000**
less Cost of Sales		(69 000)
Gross Profit		**46 000**
add Other Revenue		
Interest revenue	600	
Total other revenue		**600**
less Expenses		
Wages	16 000	
Rent expense	4 500	
Advertising	1 500	
Electricity	700	
Depreciation – shop fittings	1 300	
Interest expense	600	
Total expenses		**(24 600)**
Net Profit		**22 000**

Budgeted Balance Sheet of Rosewood Trading as at 30 November 2026

	$	$
Current Assets		
Bank	14 000	
Accounts Receivable	28 000	
Inventory	48 000	
Prepaid rent	4 000	94 000
Non-Current Assets		
Shop fittings	50 000	
Delivery van	40 000	90 000
Total Assets		184 000
Current Liabilities		
Accounts Payable	22 000	
GST Clearing	6 000	28 000
Non-Current Liabilities		
Loan – Delta Finance		36 000
Total Liabilities		64 000
Owner's Equity		
Capital (opening)	110 000	
Add Net Profit	22 000	
	132 000	
Less Drawings	12 000	120 000
Total Liabilities and Owner's Equity		184 000

∴ the reports interlock: the **$22 000 budgeted Net Profit** from the Budgeted Income Statement lifts the owner's expected Capital to $120 000; the **$14 000 budgeted closing Bank** (opening $9 000 plus the $5 000 net cash flow projected by the Budgeted Cash Flow Statement) is the Bank line; and the derived **Inventory $48 000**, **Accounts**

Receivable $28 000 and **Accounts Payable $22 000** carry the trading and credit plans into the Balance Sheet, which balances at $184 000.

Practice questions — scaffolded

Question 1

Fernhill Furniture budgets the following for the month ending 31 July 2026: Sales $70 000; Sales Returns $3 000; Cost of Sales $40 000; Wages $9 000; Rent expense $3 000; Advertising $800; Electricity $500; and Depreciation – equipment $700.

a. Prepare the Budgeted Income Statement for the month ending 31 July 2026.

b. State the budgeted Gross Profit and the budgeted Net Profit.

c. Explain in one sentence how a Budgeted Income Statement differs from a historical Income Statement.

Question 2

Brookdale Cycles budgets a Net Profit of $30 000 for the month ending 30 September 2026. The owner's Capital is expected to be $80 000 at 1 September 2026, and planned drawings are $24 000. At 30 September 2026 the business expects: Bank $11 000; Accounts Receivable $20 000; Inventory $42 000; Prepaid insurance $5 000; Equipment $30 000; Motor vehicle $50 000; Accounts Payable $18 000; GST Clearing $4 000; and a Loan from Ridgeway Bank of $50 000 (repayable over five years).

a. Calculate the budgeted closing Capital.

b. Prepare the Budgeted Balance Sheet as at 30 September 2026, showing the net profit and drawings in the Owner's Equity section.

c. State the budgeted Total Assets.

Question 3

Oakridge Traders is preparing its budget for the month ending 31 August 2026.

a. Calculate the budgeted closing **Accounts Receivable**, given opening Accounts Receivable $24 000, budgeted credit sales (including GST) $44 000 and budgeted receipts from accounts receivable $42 000.

b. Calculate the budgeted closing **Accounts Payable**, given opening Accounts Payable $18 000, budgeted credit purchases (including GST) $33 000 and budgeted payments to accounts payable $31 000.

c. Calculate the budgeted closing **Inventory**, given opening Inventory $40 000, budgeted purchases $52 000 and budgeted Cost of Sales $48 000.

Question 4

Sunhaven Nursery budgets the following for the month ending 30 September 2026: Sales $84 000; Sales Returns $4 000; Cost of Sales $46 000; Interest revenue $300; Rent revenue $500; Wages $12 000; Rent expense $3 800; Advertising $900; Electricity $500; Depreciation – equipment $1 000; and Interest expense $400.

a. Prepare the Budgeted Income Statement for the month ending 30 September 2026.

b. State the budgeted Gross Profit and the budgeted Net Profit.

c. Explain in one sentence why Depreciation is included as a budgeted expense even though no cash will be paid for it.

Question 5

Cedarvale Retail's Budgeted Income Statement for the month ending 31 October 2026 gives a budgeted Net Profit of $20 000. The owner's Capital is expected to be $75 000 at 1 October 2026, and planned drawings are $18 000. At 31 October 2026 the business expects: Bank $9 000; Accounts Receivable $22 000; Inventory $40 000; Prepaid insurance $3 000; Shop fittings $35 000; Motor vehicle $45 000; Accounts Payable $17 000; GST Clearing $5 000; and a Loan from Baywater Bank of $55 000 (non-current).

a. Show how the budgeted net profit flows from the Budgeted Income Statement into the Owner's Equity of the Budgeted Balance Sheet, by calculating the budgeted closing Capital.

b. Prepare the Budgeted Balance Sheet as at 31 October 2026.

c. State the amount at which the budgeted net profit is reported, and the section of the Budgeted Balance Sheet in which it appears.

Question 6

Highforth Trading is preparing a Budgeted Income Statement for the month ending 30 November 2026 to support a loan application. Its realistic budget is: Sales $60 000 (no returns); Cost of Sales $36 000; Wages $8 000; Rent expense $2 500; Advertising $500; and Depreciation – equipment $1 000. To make the budget look stronger to the bank, the owner proposes to budget Sales at $72 000 — a figure well above recent months and not supported by any firm orders — while leaving the budgeted Cost of Sales and expenses unchanged.

a. Prepare the **correct** Budgeted Income Statement and state the budgeted Gross Profit and Net Profit.

b. Calculate the budgeted "Net Profit" that would be reported under the owner's proposed sales figure, and state by how much it overstates the realistic budgeted Net Profit.

c. Discuss the ethical considerations raised by the owner's proposal, referring to a relevant qualitative characteristic and to the effect on the bank.

Practice questions — unscaffolded

Question 7

Willowbank Bakery Supplies budgets the following for the month ending 30 November 2026: Sales $76 000; Sales Returns $4 000; Cost of Sales $44 000; Wages $11 000; Rent expense $3 500; Advertising $900; Electricity $600; Depreciation – equipment $1 000; and Interest expense $400. Prepare the Budgeted Income Statement and state the budgeted Net Sales, Gross Profit and Net Profit.

Question 8

Stormridge Wholesale budgets a Net Profit of $40 000 for the month ending 31 December 2026. The owner's Capital is expected to be $100 000 at 1 December 2026, and planned drawings are $32 000. At 31 December 2026 the business expects: Bank $13 000; Accounts Receivable $30 000; Inventory $50 000; Prepaid insurance $6 000; Warehouse fittings $60 000; Forklift $39 000; Accounts Payable $24 000; GST Clearing $6 000; and a Loan from Ironvale Bank of $60 000 (repayable over six years). Calculate the budgeted closing Capital and prepare the Budgeted Balance Sheet as at 31 December 2026.

Question 9

Alpine Outdoor plans to sell inventory at a **mark-up of 100% on cost**. For the month ending 31 January 2027 it budgets Sales of $90 000. Its opening Inventory is $38 000 and it budgets purchases of $51 000. Calculate the budgeted Cost of Sales, the budgeted Gross Profit and the budgeted closing Inventory.

Question 10

Bayview Marine is preparing its budget for the month ending 28 February 2027. It budgets credit sales of $40 000 plus $4 000 GST, opening Accounts Receivable of $26 000 and receipts from accounts receivable of $45 000; and credit purchases of inventory of $30 000 plus $3 000 GST, opening Accounts Payable of $20 000 and payments to accounts payable of $34 000. Calculate the budgeted closing Accounts Receivable and the budgeted closing Accounts Payable, and state the report and the classification in which each is reported.

Question 11

Grovemont Traders prepares a full budget for the month ending 31 March 2027. Its Budgeted Income Statement uses: Sales $100 000; Sales Returns $4 000; Cost of Sales $58 000; Interest revenue $500; and expenses of Wages $14 000, Rent expense $4 000, Advertising $1 200, Electricity $600, Depreciation – shop fittings $1 200 and Interest expense $500. The owner's Capital is expected to be $96 000 at 1 March 2027, with planned drawings of $13 000. At 31 March 2027 the business expects: Bank $12 000; Accounts Receivable $26 000; Inventory $46 000; Prepaid insurance

$4 000; Shop fittings $44 000; Delivery van $48 000; Accounts Payable $22 000; GST Clearing $6 000; and a Loan from Cobalt Finance of $52 000 (non-current). Prepare both the Budgeted Income Statement and the Budgeted Balance Sheet, and explain how the budgeted net profit links the two reports.

Question 12

Glenwater Living budgets the following for the month ending 30 April 2027: Sales $46 000; Sales Returns $3 000; Cost of Sales $29 000; Wages $9 000; Rent expense $3 000; Advertising $900; Electricity $600; and Depreciation – equipment $1 000. Prepare the Budgeted Income Statement, state the budgeted result, and explain in one sentence what a budgeted net loss warns the owner and what it might prompt the owner to do.

Question 13

Redgum Retail budgets a Net Profit of $50 000 for the month ending 31 May 2027. The owner's Capital is expected to be $90 000 at 1 May 2027, and planned drawings are $40 000. At 31 May 2027 the business expects a **bank overdraft** of $8 000; Accounts Receivable $30 000; Inventory $54 000; Prepaid insurance $8 000; Shop fittings $60 000; Motor vehicle $60 000; Accounts Payable $24 000; GST Clearing $5 000; and a Loan from Sabre Bank of $75 000, of which $15 000 is to be repaid within the next 12 months and $60 000 beyond. Prepare the Budgeted Balance Sheet as at 31 May 2027, state the budgeted Total Liabilities, and state what the budget warns the owner about the business's cash position.

Question 14

Thornbury Trading is preparing its budget for the year ending 30 June 2027. It budgets a Cost of Sales of $120 000, an opening Inventory of $18 000 and a closing Inventory of $24 000, and buys all its inventory on credit (GST 10%). Its opening Accounts Payable is $22 000 and it budgets payments to accounts payable of $134 600. Using reconstruction, calculate the budgeted purchases (excluding GST), the budgeted credit purchases (including GST) and the budgeted closing Accounts Payable.

Question 15

Explain each of the following in a sentence or two.

a. What a **budgeted accounting report** is, and how it differs from a historical accounting report.

b. Why the Budgeted Income Statement and Budgeted Balance Sheet are prepared to the **same classified formats** as the historical reports.

c. How the **budgeted Net Profit** links the Budgeted Income Statement to the Budgeted Balance Sheet.

d. Why the **budgeted Net Profit** is **not** the same as the **budgeted increase in cash**.

Question 16

Marchwood Traders budgets a healthy Net Profit of $30 000 for the coming year, yet its budget shows the Bank **falling** by $5 000 over the same period. It buys **all its inventory for cash**: its budgeted Cost of Sales is $150 000 while its budgeted cash paid for inventory is $168 000. It also plans $40 000 of drawings, a $10 000 loan repayment and the cash purchase of a new vehicle for $25 000. Explain how a business can budget a healthy profit yet budget a fall in cash, referring to the distinction between profit and cash and to at least two specific budgeted items.

Question 17

Ravenswood Retail's owner is preparing budgeted reports to present to a prospective buyer of the business. The realistic budget shows: Sales $90 000 (no returns); Cost of Sales $54 000; and expenses of Wages $9 500, Rent expense $3 000, Advertising $3 000, Electricity $700 and Depreciation – equipment $1 800 — giving a budgeted Net Profit of $18 000. To make the business more attractive, the owner proposes to (i) budget Sales 20% higher — $108 000 — a level not supported by recent results or firm orders, while leaving the budgeted Cost of Sales and other expenses unchanged, and (ii) omit the $3 000 budgeted Advertising expense, which the business will in fact incur. Calculate the budgeted "Net Profit" that would be reported after **both** changes, and **discuss** the ethical considerations raised by the owner's proposals, referring to a relevant qualitative characteristic, to the effect on the prospective buyer, and to what should be done.

Question 18

Kingsvale Trading Co prepares a full budget for the year ending 30 June 2027. Its Budgeted Income Statement uses: Sales $260 000; Sales Returns $10 000; Cost of Sales $150 000; Interest revenue $1 000; and expenses of Wages $40 000, Rent expense $12 000, Advertising $3 000, Electricity $2 000, Depreciation – shop fittings $6 000 and Interest expense $2 000. The owner's Capital is expected to be $150 000 at 1 July 2026, with planned drawings of $26 000. For the Budgeted Balance Sheet as at 30 June 2027 it derives: Inventory = opening $30 000 + budgeted purchases $156 000 − budgeted Cost of Sales $150 000; Accounts Receivable = opening $40 000 + credit sales (incl. GST) $275 000 − receipts $273 000; Accounts Payable = opening $28 000 + credit purchases (incl. GST) $171 600 − payments $165 600; and Bank = opening $15 000 + budgeted net cash flow $3 000. It also expects Prepaid insurance $4 000; Shop fittings $80 000; Motor vehicles $90 000; GST Clearing $11 000; and a Loan from Vantage Bank of $65 000, of which $15 000 is to be repaid within the next 12 months and $50 000 beyond. Prepare both the Budgeted Income Statement and the Budgeted Balance Sheet, and confirm that the Budgeted Balance Sheet balances.

Answers

1.
    b. Gross Profit $27 000; Net Profit $13 000
2.
    a. Closing Capital $86 000 c. Total Assets $158 000
3.
    a. Accounts Receivable $26 000 b. Accounts Payable $20 000 c. Inventory $44 000
4.
    b. Gross Profit $34 000; Net Profit $16 200
5.
    a. Closing Capital $77 000 c. $20 000, reported in the Owner's Equity section (Add Net Profit)
6.
    a. Gross Profit $24 000; Net Profit $12 000 b. Optimistic "Net Profit" $24 000 (overstated by $12 000)
7. Net Sales $72 000; Gross Profit $28 000; Net Profit $10 600
8. Closing Capital $108 000; balances at Total Assets $198 000
9. Cost of Sales $45 000; Gross Profit $45 000; closing Inventory $44 000
10. Accounts Receivable $25 000 (current asset); Accounts Payable $19 000 (current liability) — both in the Balance Sheet
11. Net Profit $17 000; balances at Total Assets $180 000 (closing Capital $100 000)
12. Budgeted **Net Loss** $500 (Gross Profit $14 000; total expenses $14 500)
13. Total Liabilities $112 000; balances at Total Assets $212 000 (bank overdraft $8 000; loan $15 000 current + $60 000 non-current)
14. Purchases $126 000 (ex-GST); credit purchases $138 600 (incl. GST); closing Accounts Payable $26 000
15. See solutions
16. See solutions
17. Reported "Net Profit" $39 000 (overstated by $21 000) — see solutions
18. Net Profit $36 000; balances at Total Assets $270 000 (closing Capital $160 000; loan $15 000 current + $50 000 non-current)

Fully-worked solutions

Question 1

Net Sales = $70 000 − $3 000 = $67 000; Gross Profit = $67 000 − $40 000 = $27 000; total expenses = $9 000 + $3 000 + $800 + $500 + $700 = $14 000; Net Profit = $27 000 − $14 000 = $13 000.

Budgeted Income Statement for the month ending 31 July 2026

Fernhill Furniture	$	$
Revenue		
Sales	70 000	
less Sales Returns	(3 000)	
Net Sales		**67 000**
less Cost of Sales		(40 000)
Gross Profit		**27 000**
less Expenses		
Wages	9 000	
Rent expense	3 000	
Advertising	800	
Electricity	500	
Depreciation – equipment	700	

Fernhill Furniture	$	$
Total expenses		**(14 000)**
Net Profit		**13 000**

b. Budgeted Gross Profit = **$27 000**; budgeted Net Profit = **$13 000**.

c. A **Budgeted** Income Statement reports the revenues and expenses the business **expects** to earn and incur in a **future** period (a plan), whereas a **historical** Income Statement reports the revenues and expenses that **actually** occurred in a period that has already ended.

Question 2

a. Budgeted closing Capital = opening $80 000 + Net Profit $30 000 − Drawings $24 000 = **$86 000**.

Budgeted Balance Sheet of Brookdale Cycles as at 30 September 2026

	$	$
Current Assets		
Bank	11 000	
Accounts Receivable	20 000	
Inventory	42 000	
Prepaid insurance	5 000	78 000
Non-Current Assets		
Equipment	30 000	
Motor vehicle	50 000	80 000
Total Assets		158 000
Current Liabilities		
Accounts Payable	18 000	
GST Clearing	4 000	22 000
Non-Current Liabilities		
Loan – Ridgeway Bank		50 000
Total Liabilities		72 000
Owner's Equity		
Capital (opening)	80 000	
Add Net Profit	30 000	
	110 000	
Less Drawings	24 000	86 000
Total Liabilities and Owner's Equity		158 000

c. Budgeted Total Assets = **$158 000** (and $72 000 + $86 000 = $158 000, so the budget balances).

Question 3

a. Budgeted closing Accounts Receivable = opening $24 000 + budgeted credit sales (incl. GST) $44 000 − budgeted receipts $42 000 = **$26 000**.

b. Budgeted closing Accounts Payable = opening $18 000 + budgeted credit purchases (incl. GST) $33 000 − budgeted payments $31 000 = **$20 000**.

c. Budgeted closing Inventory = opening $40 000 + budgeted purchases $52 000 − budgeted Cost of Sales $48 000 = **$44 000**.

Question 4

Net Sales = $84 000 − $4 000 = $80 000; Gross Profit = $80 000 − $46 000 = $34 000; total other revenue = $300 + $500 = $800; total expenses = $12 000 + $3 800 + $900 + $500 + $1 000 + $400 = $18 600; Net Profit = $34 000 + $800 − $18 600 = $16 200.

Budgeted Income Statement for the month ending 30 September 2026

Sunhaven Nursery	$	$
Revenue		
Sales	84 000	
less Sales Returns	(4 000)	
Net Sales		**80 000**
less Cost of Sales		(46 000)
Gross Profit		**34 000**
add Other Revenue		
Interest revenue	300	
Rent revenue	500	
Total other revenue		**800**
less Expenses		
Wages	12 000	
Rent expense	3 800	
Advertising	900	
Electricity	500	
Depreciation – equipment	1 000	
Interest expense	400	
Total expenses		**(18 600)**
Net Profit		**16 200**

b. Budgeted Gross Profit = **$34 000**; budgeted Net Profit = **$16 200**.

c. **Depreciation** is the allocation of the cost of a non-current asset over its useful life; it is an **expected expense** of using the asset during the budget period, so it reduces the budgeted profit even though it is a **non-cash** item and no cash will be paid for it.

Question 5

a. Budgeted closing Capital = opening $75 000 + budgeted Net Profit $20 000 − budgeted Drawings $18 000 = **$77 000**. The $20 000 net profit earned in the Budgeted Income Statement is added to the owner's Capital in the Owner's Equity section of the Budgeted Balance Sheet.

Budgeted Balance Sheet of Cedarvale Retail as at 31 October 2026

	$	$
Current Assets		
Bank	9 000	
Accounts Receivable	22 000	
Inventory	40 000	
Prepaid insurance	3 000	74 000
Non-Current Assets		
Shop fittings	35 000	
Motor vehicle	45 000	80 000
Total Assets		154 000

	$	$
Current Liabilities		
Accounts Payable	17 000	
GST Clearing	5 000	22 000
Non-Current Liabilities		
Loan – Baywater Bank		55 000
Total Liabilities		77 000
Owner's Equity		
Capital (opening)	75 000	
Add Net Profit	20 000	
	95 000	
Less Drawings	18 000	77 000
Total Liabilities and Owner's Equity		154 000

c. The budgeted net profit is reported at **$20 000**, in the **Owner's Equity** section, on the **Add Net Profit** line — where it lifts the opening Capital of $75 000 towards the closing Capital of $77 000.

Question 6

a. Correctly, Gross Profit = $60 000 − $36 000 = $24 000; total expenses = $8 000 + $2 500 + $500 + $1 000 = $12 000; Net Profit = $24 000 − $12 000 = $12 000.

Budgeted Income Statement for the month ending 30 November 2026

Highforth Trading	$	$
Revenue		
Sales	60 000	
Net Sales		**60 000**
less Cost of Sales		(36 000)
Gross Profit		**24 000**
less Expenses		
Wages	8 000	
Rent expense	2 500	
Advertising	500	
Depreciation – equipment	1 000	
Total expenses		**(12 000)**
Net Profit		**12 000**

Budgeted Gross Profit = **$24 000**; budgeted Net Profit = **$12 000**.

b. Under the owner's proposed Sales of $72 000 (with Cost of Sales unchanged at $36 000), the reported "Gross Profit" would be $72 000 − $36 000 = $36 000, and the "Net Profit" would be $36 000 − $12 000 = **$24 000** — **overstating** the realistic budgeted Net Profit of $12 000 by **$12 000**.

c. Budgeting Sales at $72 000 when recent results and the order book support only $60 000 makes the budget a **biased**, over-optimistic estimate rather than a **faithful representation** — the figure is not **neutral** and is not grounded in evidence, so it does not represent what the business genuinely expects to achieve. The **bank** relies on the budgeted profit to judge whether the business can service a loan; acting on the inflated $24 000 (double the realistic $12 000), it may advance funds the business cannot in fact repay from its genuine trading, exposing the bank to loss and the owner to loss of trust and possible consequences once the actual results fall

short. The ethical course is to budget Sales at the **realistic, evidence-based $60 000** and present the true budgeted Net Profit of $12 000, letting the bank decide on figures the business can actually meet.

Question 7

Net Sales = $76 000 − $4 000 = $72 000; Gross Profit = $72 000 − $44 000 = $28 000; total expenses = $11 000 + $3 500 + $900 + $600 + $1 000 + $400 = $17 400; Net Profit = $28 000 − $17 400 = $10 600.

Budgeted Income Statement for the month ending 30 November 2026

Willowbank Bakery Supplies	$	$
Revenue		
Sales	76 000	
less Sales Returns	(4 000)	
Net Sales		**72 000**
less Cost of Sales		(44 000)
Gross Profit		**28 000**
less Expenses		
Wages	11 000	
Rent expense	3 500	
Advertising	900	
Electricity	600	
Depreciation – equipment	1 000	
Interest expense	400	
Total expenses		**(17 400)**
Net Profit		**10 600**

Budgeted Net Sales = **$72 000**; Gross Profit = **$28 000**; Net Profit = **$10 600**.

Question 8

Budgeted closing Capital = opening $100 000 + Net Profit $40 000 − Drawings $32 000 = **$108 000**. Current Assets = $13 000 + $30 000 + $50 000 + $6 000 = $99 000; Non-Current Assets = $60 000 + $39 000 = $99 000; Total Assets = $198 000.

Budgeted Balance Sheet of Stormridge Wholesale as at 31 December 2026

	$	$
Current Assets		
Bank	13 000	
Accounts Receivable	30 000	
Inventory	50 000	
Prepaid insurance	6 000	99 000
Non-Current Assets		
Warehouse fittings	60 000	
Forklift	39 000	99 000
Total Assets		198 000
Current Liabilities		
Accounts Payable	24 000	
GST Clearing	6 000	30 000

	$	$
Non-Current Liabilities		
Loan – Ironvale Bank		60 000
Total Liabilities		90 000
Owner's Equity		
Capital (opening)	100 000	
Add Net Profit	40 000	
	140 000	
Less Drawings	32 000	108 000
Total Liabilities and Owner's Equity		198 000

Total Assets of $198 000 equal Total Liabilities plus Owner's Equity ($90 000 + $108 000), so the budget balances.

Question 9

A **100% mark-up on cost** means Sales = cost × (1 + 1.00) = cost × 2, so budgeted Cost of Sales = $90 000 ÷ 2 = **$45 000**. Budgeted Gross Profit = $90 000 − $45 000 = **$45 000**. Budgeted closing Inventory = opening $38 000 + budgeted purchases $51 000 − budgeted Cost of Sales $45 000 = **$44 000**.

Question 10

Budgeted closing Accounts Receivable = opening $26 000 + budgeted credit sales incl. GST ($40 000 + $4 000 = $44 000) − budgeted receipts $45 000 = **$25 000**. Budgeted closing Accounts Payable = opening $20 000 + budgeted credit purchases incl. GST ($30 000 + $3 000 = $33 000) − budgeted payments $34 000 = **$19 000**. Both are reported in the **Budgeted Balance Sheet**: Accounts Receivable as a **current asset** and Accounts Payable as a **current liability**.

Question 11

Budgeted Income Statement: Net Sales = $100 000 − $4 000 = $96 000; Gross Profit = $96 000 − $58 000 = $38 000; total expenses = $14 000 + $4 000 + $1 200 + $600 + $1 200 + $500 = $21 500; Net Profit = $38 000 + $500 − $21 500 = **$17 000**. Budgeted closing Capital = $96 000 + $17 000 − $13 000 = $100 000. Current Assets = $12 000 + $26 000 + $46 000 + $4 000 = $88 000; Non-Current Assets = $44 000 + $48 000 = $92 000; Total Assets = $180 000.

Budgeted Income Statement for the month ending 31 March 2027

Grovemont Traders	$	$
Revenue		
Sales	100 000	
less Sales Returns	(4 000)	
Net Sales		**96 000**
less Cost of Sales		(58 000)
Gross Profit		**38 000**
add Other Revenue		
Interest revenue	500	
Total other revenue		**500**
less Expenses		
Wages	14 000	
Rent expense	4 000	
Advertising	1 200	
Electricity	600	
Depreciation – shop	1 200	

Grovemont Traders	$	$
fittings		
Interest expense	500	
Total expenses		**(21 500)**
Net Profit		**17 000**

Budgeted Balance Sheet of Grovemont Traders as at 31 March 2027

	$	$
Current Assets		
Bank	12 000	
Accounts Receivable	26 000	
Inventory	46 000	
Prepaid insurance	4 000	88 000
Non-Current Assets		
Shop fittings	44 000	
Delivery van	48 000	92 000
Total Assets		180 000
Current Liabilities		
Accounts Payable	22 000	
GST Clearing	6 000	28 000
Non-Current Liabilities		
Loan – Cobalt Finance		52 000
Total Liabilities		80 000
Owner's Equity		
Capital (opening)	96 000	
Add Net Profit	17 000	
	113 000	
Less Drawings	13 000	100 000
Total Liabilities and Owner's Equity		180 000

The **$17 000 budgeted Net Profit** is the link: earned in the Budgeted Income Statement, it is carried into the **Owner's Equity** section of the Budgeted Balance Sheet, where it is added to the opening Capital of $96 000 (before the $13 000 drawings) to give the closing Capital of $100 000. Total Assets of $180 000 equal Total Liabilities plus Owner's Equity ($80 000 + $100 000), so the budget balances.

Question 12

Net Sales = $46 000 − $3 000 = $43 000; Gross Profit = $43 000 − $29 000 = $14 000; total expenses = $9 000 + $3 000 + $900 + $600 + $1 000 = $14 500. Because the budgeted expenses ($14 500) exceed the budgeted Gross Profit ($14 000), the budget projects a **Net Loss** of $14 500 − $14 000 = $500.

Budgeted Income Statement for the month ending 30 April 2027

Glenwater Living	$	$
Revenue		
Sales	46 000	
less Sales Returns	(3 000)	

Glenwater Living	$	$
Net Sales		**43 000**
less Cost of Sales		(29 000)
Gross Profit		**14 000**
less Expenses		
Wages	9 000	
Rent expense	3 000	
Advertising	900	
Electricity	600	
Depreciation – equipment	1 000	
Total expenses		**(14 500)**
Net Loss		**(500)**

The budget projects a **Net Loss of $500**: as planned, the month's expenses would exceed the gross profit, reducing the owner's equity — a warning that prompts the owner to act **before** the period begins, for example by lifting budgeted sales or margin or by cutting a budgeted overhead, so that the plan returns a profit.

Question 13

Budgeted closing Capital = opening $90 000 + Net Profit $50 000 − Drawings $40 000 = $100 000. The Bank is expected to be **overdrawn**, so the $8 000 bank overdraft is a **current liability** and Bank does not appear among the current assets. The $15 000 of the loan due within 12 months is a current liability and the $60 000 balance is non-current. Current Assets = $30 000 + $54 000 + $8 000 = $92 000; Non-Current Assets = $60 000 + $60 000 = $120 000; Total Assets = $212 000.

Budgeted Balance Sheet of Redgum Retail as at 31 May 2027

	$	$
Current Assets		
Accounts Receivable	30 000	
Inventory	54 000	
Prepaid insurance	8 000	92 000
Non-Current Assets		
Shop fittings	60 000	
Motor vehicle	60 000	120 000
Total Assets		212 000
Current Liabilities		
Bank overdraft	8 000	
Accounts Payable	24 000	
GST Clearing	5 000	
Loan – Sabre Bank (current portion)	15 000	52 000
Non-Current Liabilities		
Loan – Sabre Bank		60 000
Total Liabilities		112 000
Owner's Equity		
Capital (opening)	90 000	
Add Net Profit	50 000	
	140 000	

	$	$
Less Drawings	40 000	100 000
Total Liabilities and Owner's Equity		212 000

Budgeted Total Liabilities = **$112 000**, and Total Assets of $212 000 equal Total Liabilities plus Owner's Equity ($112 000 + $100 000), so the budget balances. Although the business budgets a healthy $50 000 net profit, the budget warns that the **Bank is expected to be $8 000 overdrawn** at 31 May — a signal that the planned drawings and other cash outflows will outrun the cash the business generates, so the owner should review the plan (for example, reducing drawings) before the shortfall occurs.

Question 14

By reconstruction, budgeted purchases = Cost of Sales + (closing Inventory − opening Inventory) = $120 000 + ($24 000 − $18 000) = $120 000 + $6 000 = **$126 000** (excluding GST). Adding 10% GST, budgeted credit purchases = $126 000 + $12 600 = **$138 600** (including GST). Budgeted closing Accounts Payable = opening $22 000 + credit purchases $138 600 − payments $134 600 = **$26 000**.

Question 15

a. A **budgeted accounting report** is a report of the amounts a business **expects** to earn, own and owe in a **future** period — a financial plan. It differs from a **historical** report, which reports the amounts that **actually** occurred in a period that has already ended: the budget is an estimate prepared *before* the period, the historical report a record prepared *after* it.

b. The budgeted reports use the **same classified formats** as the historical reports so that the plan can be compared **directly** with the eventual actual result, line by line, in a **variance report** — a comparison that is only meaningful if the two are set out identically (this also supports **comparability**).

c. The **budgeted Net Profit** is calculated in the Budgeted Income Statement (expected revenues less expected expenses) and is then carried into the **Owner's Equity** section of the Budgeted Balance Sheet, where it is **added** to the opening Capital (before deducting budgeted drawings) to give the expected closing Capital — the single figure that makes the budgeted position balance.

d. The **budgeted Net Profit** measures expected **revenues less expenses**, whereas the **budgeted increase in cash** measures expected **cash received less cash paid**. They differ because some budgeted cash flows are **not** revenues or expenses — budgeted **drawings**, a budgeted **loan repayment** and the budgeted **cash purchase of a non-current asset** reduce cash without reducing profit, while a budgeted **capital contribution** or **loan received** raises cash without adding to profit — and because buying a different quantity of inventory than is sold, and non-cash expenses such as **depreciation**, further separate the two.

Question 16

A **profit** measures **revenue earned less expenses incurred**, whereas the **change in cash** measures **cash received less cash paid** — so a budget can plan a profit and still plan a fall in cash. The clearest reason here is inventory: the budgeted profit is reduced by only the **$150 000 Cost of Sales** (the goods planned to be **sold**), but the Bank is planned to be reduced by the **$168 000 cash paid for inventory** (the goods planned to be **bought**) — because all inventory is bought for cash, the business plans to buy **$18 000 more inventory than it sells**, tying that cash up in a larger Inventory asset that is not yet an expense. On top of this, several budgeted cash outflows are **not expenses** and so never reduce profit: the **$40 000 drawings**, the **$10 000 loan repayment** and the **$25 000 cash purchase of the new vehicle** all drain the Bank while leaving the budgeted profit untouched. Together these outweigh the $30 000 profit, so the budget — correctly — shows the Bank **falling** even though the business plans to trade profitably: a warning to the owner that both profit and cash must be planned and managed.

Question 17

Effect of the proposals. Inflating budgeted Sales by 20%, from $90 000 to $108 000, while leaving the budgeted Cost of Sales and other expenses unchanged, would lift budgeted Gross Profit and budgeted Net Profit by $18 000, from $18 000 to $36 000. Omitting the $3 000 budgeted Advertising expense would raise the budgeted Net Profit by a

further $3 000. Together the two changes would report a budgeted "Net Profit" of $18 000 + $18 000 + $3 000 = **$39 000** — an **overstatement of $21 000** on the realistic $18 000.

Ethical discussion. Both proposals breach the owner's ethical duty to present the budget as a **faithful representation** — a **neutral**, evidence-based estimate, free from bias. Budgeting Sales 20% above any level supported by recent results or firm orders is not a genuine expectation but an **over-optimistic** figure chosen to flatter the plan; leaving the Cost of Sales unchanged as sales "rise" compounds the distortion. And **omitting the $3 000 Advertising** that the business knows it will incur makes the budget **incomplete**, understating the expected expenses. The **prospective buyer** relies on the budgeted reports to value the business; acting on the inflated $39 000 (more than double the realistic $18 000), the buyer may **overpay** for a business that cannot deliver those results, and the overstatement will be exposed once actual trading falls short — damaging the owner's credibility and exposing the owner to possible legal consequences for misrepresentation. The owner should budget **Sales at the realistic, evidence-based level**, **include the $3 000 Advertising** and every other expected expense, and present the true budgeted Net Profit of **$18 000**, letting the buyer judge the business on figures it can genuinely achieve.

Question 18

Budgeted Income Statement: Net Sales = $260 000 − $10 000 = $250 000; Gross Profit = $250 000 − $150 000 = $100 000; total expenses = $40 000 + $12 000 + $3 000 + $2 000 + $6 000 + $2 000 = $65 000; Net Profit = $100 000 + $1 000 − $65 000 = **$36 000**. Derived balances: Inventory = $30 000 + $156 000 − $150 000 = **$36 000**; Accounts Receivable = $40 000 + $275 000 − $273 000 = **$42 000**; Accounts Payable = $28 000 + $171 600 − $165 600 = **$34 000**; Bank = $15 000 + $3 000 = **$18 000**. Budgeted closing Capital = $150 000 + $36 000 − $26 000 = $160 000. The $15 000 of the loan due within 12 months is a current liability and the $50 000 balance is non-current.

Budgeted Income Statement for the year ending 30 June 2027

Kingsvale Trading Co	$	$
Revenue		
Sales	260 000	
less Sales Returns	(10 000)	
Net Sales		**250 000**
less Cost of Sales		(150 000)
Gross Profit		**100 000**
add Other Revenue		
Interest revenue	1 000	
Total other revenue		**1 000**
less Expenses		
Wages	40 000	
Rent expense	12 000	
Advertising	3 000	
Electricity	2 000	
Depreciation – shop fittings	6 000	
Interest expense	2 000	
Total expenses		**(65 000)**
Net Profit		**36 000**

Budgeted Balance Sheet of Kingsvale Trading Co as at 30 June 2027

	$	$
Current Assets		
Bank	18 000	

	$	$
Accounts Receivable	42 000	
Inventory	36 000	
Prepaid insurance	4 000	100 000
Non-Current Assets		
Shop fittings	80 000	
Motor vehicles	90 000	170 000
Total Assets		270 000
Current Liabilities		
Accounts Payable	34 000	
GST Clearing	11 000	
Loan – Vantage Bank (current portion)	15 000	60 000
Non-Current Liabilities		
Loan – Vantage Bank		50 000
Total Liabilities		110 000
Owner's Equity		
Capital (opening)	150 000	
Add Net Profit	36 000	
	186 000	
Less Drawings	26 000	160 000
Total Liabilities and Owner's Equity		270 000

Total Assets of $270 000 equal Total Liabilities plus Owner's Equity ($110 000 + $160 000), so the Budgeted Balance Sheet balances; the year's $36 000 budgeted net profit lifts the owner's expected closing Capital to $160 000, and the $65 000 loan is reported as $15 000 current and $50 000 non-current.

Chapter 17 Budgets — 17D Variance reports

Units 3 & 4 preview — beyond the Units 1 & 2 study design. In the study design, variance reports are **Unit 4** key knowledge. Units 1 & 2 prepare the **budgeted** accounting reports (17A–17C) and the **historical** reports that record what actually happened; Units 3 & 4 set the two side by side and report the differences. This section previews that method — the five-column report, the Favourable/Unfavourable labelling rule and the checks that go with it — because it completes the budgeting cycle begun in 17A.

Theory

A budget is only worth preparing if the business later checks whether the plan was actually met. Once the period is over there are **two** sets of figures for the same items: the **budgeted** figures the business planned at the start of the period, and the **actual** figures reported at the end. A **variance report** places these side by side, calculates the **variance** — the difference between budget and actual — for each item, and labels every variance **Favourable (F)** or **Unfavourable (U)**. Its purpose is to show, item by item, **where** performance differed from the plan and **by how much**, so that the owner can investigate the causes and decide on **corrective action**.

Budget versus actual. The **budget** is the expected figure — taken from the Budgeted Income Statement or the Budgeted Cash Flow Statement. The **actual** is what really happened — taken from the actual Income Statement or actual Cash Flow Statement. The two are prepared in the **same format and for the same period** so that they can be compared line for line. A variance report is therefore a report of **comparison**: it does not record any transactions and creates no journal entries.

Calculating the variance. For every item the variance is the difference between the budgeted and the actual figure, and is always shown as a **positive** amount:

> **Variance = actual $ − budgeted $** (shown as a positive amount)

The **size** of the variance tells you *how far* the actual result was from the plan. The **direction** of the difference — together with the **type of item** — tells you whether that difference was good or bad for the business.

Favourable or Unfavourable. A variance is **Favourable (F)** if it **increases** the business's profit or cash compared with the budget, and **Unfavourable (U)** if it **decreases** profit or cash. Which way round that works depends on whether the item is a **revenue / cash inflow** or an **expense / cash outflow**:

Item type	Actual greater than budget	Actual less than budget
Revenue / cash inflow (Sales, fees, receipts from Accounts Receivable)	**Favourable (F)**	**Unfavourable (U)**
Expense / cash outflow (Cost of Sales, Wages, payments to Accounts Payable)	**Unfavourable (U)**	**Favourable (F)**

The logic never changes: earning **more revenue** than planned, or spending **less** than planned, is good for profit and cash (**F**); earning **less revenue**, or spending **more**, is bad for profit and cash (**U**). A useful memory aid — for a **revenue** item, "actual above budget = favourable"; for an **expense** item, "actual above budget = unfavourable". If the actual figure **equals** the budget there is **no variance**, and the line is neither favourable nor unfavourable.

The net variance. After every line has been compared, the report finishes with the **bottom line** — the **net profit** (in a net profit variance report) or the **net cash flow** (in a cash variance report). The net variance is simply the **actual net figure less the budgeted net figure**, labelled **F** if the actual exceeds the budget and **U** if it falls short. Because the bottom line is built from the individual items, there is a **built-in check**:

> **Total favourable variances − total unfavourable variances = net variance**

If the favourable dollars less the unfavourable dollars do not equal the movement in the bottom line, then an individual variance has been calculated or labelled incorrectly.

Interpreting variances. A variance report does not run the business — it **directs attention**. A *large* variance (favourable or unfavourable) flags an item where the outcome was very different from the plan and is worth

investigating; *small* variances can usually be left alone, so that the owner's limited time goes to the **exceptions**. For each significant variance the business asks *why* it arose and *what*, if anything, should be done:

- An **unfavourable sales variance** may mean lower selling prices, fewer units sold, stronger competition or a weaker economy; a possible corrective action is a revised marketing or pricing strategy.
- An **unfavourable expense variance** may mean the prices paid rose, or the business used more of a resource than expected; corrective action might be to renegotiate with suppliers or tighten controls.
- A **favourable variance** confirms the plan was beaten, but should still be understood — it may reflect genuinely better performance, or simply a budget that was set too cautiously.

A favourable variance is not always "good news." The F/U label describes only the **effect on profit or cash**, not whether the owner should be pleased. Spending **$6 000 less** than budgeted on maintenance is a **favourable** expense variance, but if that under-spending leads to breakdowns and lost sales, the business is worse off overall. Variances must be read **together**, because items are **interrelated**: a fall in sales usually drags Cost of Sales down with it, so a favourable Cost of Sales variance can be the *symptom* of an unfavourable sales result, not an achievement.

Limitations. A variance report shows **what** happened, not **why** — the causes must be investigated separately. Its usefulness also depends on the quality of the budget: if the budget was **unrealistic** (too optimistic or too cautious), the variances measure the error in the plan rather than the performance of the business. And because a variance report uses only **financial** data, it ignores **non-financial** information (staff morale, customer satisfaction, market conditions) that may better explain the result.

Ethical considerations. A variance report can create pressure that tempts those who prepare it, or who are judged by it, to act unethically. An owner or manager might build **budgetary slack** into the plan — deliberately setting revenue targets low and expense allowances high — so that the actual results always show favourable variances and their performance looks better than it truly is. Others might chase a favourable expense variance by cutting spending the business genuinely needs, such as staff training, equipment maintenance or product quality, shifting the cost onto employees, customers or the community and storing up larger problems for later. There is also a temptation to **manipulate the actual figures** — for example bringing forward the recording of revenue, or delaying the recording of expenses — so that a period appears to have met its budget. Behaving ethically means setting **realistic, honest budgets**, reporting the actual results as a **faithful representation** of what occurred, and using variances to understand and improve performance rather than to disguise it or to unfairly blame staff for outcomes beyond their control.

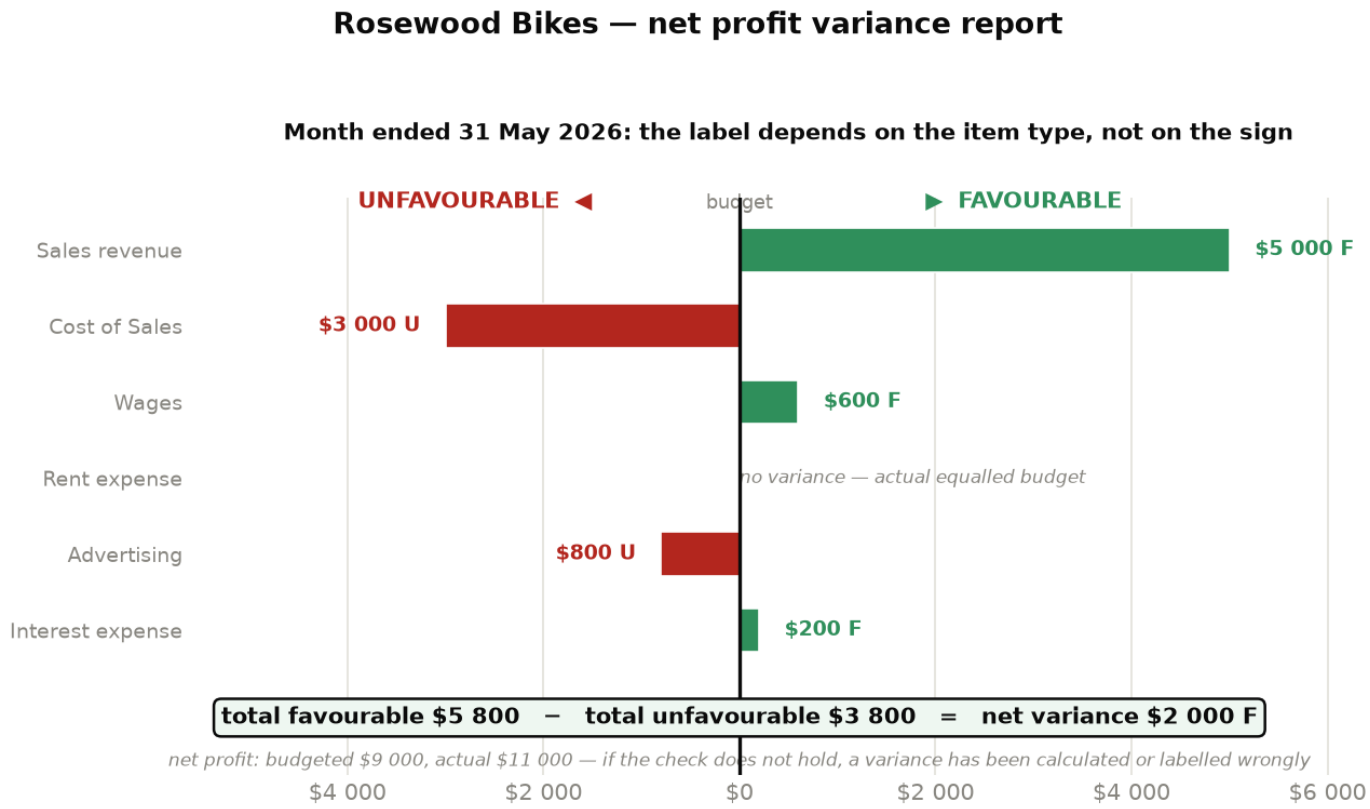
Report format. A variance report is set out as a table with five columns — the **item**, the **Budget $**, the **Actual $**, the **Variance $** and the **F/U** label — and finishes with the net profit or net cash flow line. Because the F/U column already carries the direction of each difference, every dollar figure is shown as a **positive** amount (no brackets, except where a net cash figure is itself a deficit). A net profit variance report is titled for a **period** ("…for the month/year ended…"), matching the report it is built from.

Worked model. Rosewood Bikes budgeted a net profit of $9 000 for the month ended 31 May 2026. Its actual net profit was $11 000. The variance report below compares each item.

Variance Report — Net Profit for the month ended 31 May 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	80 000	85 000	5 000	F
Cost of Sales	48 000	51 000	3 000	U
Wages	13 000	12 400	600	F
Rent expense	6 000	6 000	–	–
Advertising	2 500	3 300	800	U
Interest expense	1 500	1 300	200	F
Net Profit	**9 000**	**11 000**	**2 000**	**F**

Sales were $5 000 above budget (a favourable revenue variance), while Cost of Sales and Advertising ran above budget (unfavourable expense variances). The bottom line improved by **$2 000 F**. The built-in check holds: total favourable $5 800 (5 000 + 600 + 200) less total unfavourable $3 800 (3 000 + 800) = **$2 000 F**.

Plotting each variance either side of the budget line turns the F/U label into a **direction**:



Rosewood Bikes — net profit variance report for the month ended 31 May 2026

Sales and Cost of Sales both came in **above** budget, yet they point opposite ways — because the label depends on the **item type**, not on the sign of the difference. More revenue than planned lifts profit (F); more expense than planned reduces it (U). Rent expense, at exactly its budget, produces no bar at all. Reading the two sides against each other gives the built-in check by inspection: the favourable lengths total $5 800, the unfavourable $3 800, and the difference is the $2 000 F movement in net profit. If those two totals did not differ by the bottom-line movement, a variance would have been calculated or labelled wrongly.

Worked examples (scaffolded)

Example 1 — preparing a net profit variance report and interpreting it

Tidewater Homewares budgeted the following for the month ended 30 June 2026: Sales revenue $110 000; Cost of Sales $66 000; Wages $20 000; Rent expense $8 000; Advertising $3 500; Interest expense $1 800. The **actual** results were: Sales revenue $118 000; Cost of Sales $72 000; Wages $20 000; Rent expense $7 400; Advertising $5 000; Interest expense $2 000.

Working	Comment
Sales revenue: $118 000 − $110 000 = $8 000. Revenue *above* budget, so **$8 000 F**.	More revenue than planned increases profit, so higher-than-budget revenue is favourable.
Cost of Sales: $72 000 − $66 000 = $6 000. An expense *above* budget, so **$6 000 U**.	Spending more than planned on an expense reduces profit — unfavourable.
Wages: $20 000 − $20 000 = 0. **No variance.**	Actual equals budget, so the line is neither favourable nor unfavourable.
Rent expense: $8 000 − $7 400 = $600. An expense *below* budget, so **$600 F**.	Spending less than planned on an expense increases profit — favourable.
Advertising: $5 000 − $3 500 = $1 500 over budget, so	An expense above budget is unfavourable.

Working	Comment
$1 500 U.	
Interest expense: $2 000 − $1 800 = $200 over budget, so **$200 U**.	An expense above budget is unfavourable.
Net profit: budget $10 700; actual $11 600; variance **$900 F**. Check: favourable $8 600 (8 000 + 600) − unfavourable $7 700 (6 000 + 1 500 + 200) = $900 F.	The net variance equals total favourable minus total unfavourable — always cross-check it.

Variance Report — Net Profit for the month ended 30 June 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	110 000	118 000	8 000	F
Cost of Sales	66 000	72 000	6 000	U
Wages	20 000	20 000	–	–
Rent expense	8 000	7 400	600	F
Advertising	3 500	5 000	1 500	U
Interest expense	1 800	2 000	200	U
Net Profit	**10 700**	**11 600**	**900**	**F**

Example 2 — preparing a cash variance report with a reconciliation to Bank

Maple Lane Grocers began June with a Bank balance of $9 000. For the month ended 30 June 2026 it budgeted these cash flows: Cash sales $55 000; Receipts from Accounts Receivable $22 000; Payments to Accounts Payable $40 000; Wages $16 000; Rent paid $5 000; GST paid $3 500. The **actual** cash flows were: Cash sales $59 000; Receipts from Accounts Receivable $19 000; Payments to Accounts Payable $43 000; Wages $15 200; Rent paid $5 000; GST paid $3 100.

Working	Comment
Cash sales: $59 000 − $55 000 = $4 000 above budget, an inflow, so **$4 000 F**.	Receiving more cash than planned is favourable for cash.
Receipts from Accounts Receivable: $22 000 − $19 000 = $3 000 *below* budget, so **$3 000 U**.	Collecting less cash than planned is unfavourable.
Payments to Accounts Payable: $43 000 − $40 000 = $3 000 above budget, an outflow, so **$3 000 U**.	Paying out more cash than planned is unfavourable.
Wages: $16 000 − $15 200 = $800 below budget, an outflow, so **$800 F**.	Paying out less than planned is favourable.
Rent paid: $5 000 − $5 000 = 0. **No variance.**	Actual equals budget.
GST paid: $3 500 − $3 100 = $400 below budget, so **$400 F**.	A smaller cash outflow than planned is favourable.
Net cash flow: budget $12 500; actual $11 700; variance **$800 U**. Check: favourable $5 200 (4 000 + 800 + 400) − unfavourable $6 000 (3 000 + 3 000) = − $800, i.e. **$800 U**.	Actual net cash was $800 short of plan.
Bank at end: budget $9 000 + $12 500 = $21 500; actual $9 000 + $11 700 = $20 700; variance **$800 U**.	Opening Bank was the same, so the closing-bank variance equals the net-cash variance.

Variance Report — Cash for the month ended 30 June 2026	Budget $	Actual $	Variance $	F/U
Cash inflows				
Cash sales	55 000	59 000	4 000	F
Receipts from Accounts Receivable	22 000	19 000	3 000	U
Cash outflows				
Payments to Accounts Payable	40 000	43 000	3 000	U
Wages	16 000	15 200	800	F
Rent paid	5 000	5 000	–	–
GST paid	3 500	3 100	400	F
Net cash flow	**12 500**	**11 700**	**800**	**U**
add Bank balance at start (1 June 2026)	9 000	9 000	–	–
Bank balance at end (30 June 2026)	**21 500**	**20 700**	**800**	**U**

Worked examples (unscaffolded)

Example 3 — a net profit variance report with an unfavourable result

Copperfield Hardware budgeted a net profit of $13 500 for the month ended 31 July 2026 from: Sales revenue $140 000; Cost of Sales $84 000; Wages $24 000; Advertising $5 000; Rent expense $11 000; Interest expense $2 500. Its actual results were: Sales revenue $132 000; Cost of Sales $77 000; Wages $25 500; Advertising $4 400; Rent expense $11 000; Interest expense $2 500.

Sales fell $8 000 short of budget (**$8 000 U**). Cost of Sales was $7 000 below budget (**$7 000 F**) and Advertising $600 below budget (**$600 F**), but Wages ran $1 500 over budget (**$1 500 U**); Rent and Interest matched budget exactly (no variance). Budgeted net profit of $13 500 fell to an actual $11 600 — a net profit variance of **$1 900 U** (favourable $7 600 − unfavourable $9 500).

Variance Report — Net Profit for the month ended 31 July 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	140 000	132 000	8 000	U
Cost of Sales	84 000	77 000	7 000	F
Wages	24 000	25 500	1 500	U
Advertising	5 000	4 400	600	F
Rent expense	11 000	11 000	–	–
Interest expense	2 500	2 500	–	–
Net Profit	**13 500**	**11 600**	**1 900**	**U**

∴ actual net profit of $11 600 was **$1 900 below budget** — an unfavourable result driven mainly by sales falling $8 000 short, only partly offset by the favourable Cost of Sales variance that fell *with* those sales.

Example 4 — a cash variance report with a favourable result

Seaview Traders budgeted a net cash inflow of $17 000 for the month ended 31 August 2026 from: Cash sales $42 000; Receipts from Accounts Receivable $28 000; Payments to Accounts Payable $26 000; Wages $14 000; GST paid $4 000; Purchase of shelving $9 000. Its actual cash flows were: Cash sales $48 000; Receipts from Accounts Receivable $30 000; Payments to Accounts Payable $29 000; Wages $14 000; GST paid $4 600; Purchase of shelving $9 000.

Both inflows beat budget — Cash sales by $6 000 (**F**) and Receipts from Accounts Receivable by $2 000 (**F**). Payments to Accounts Payable were $3 000 over budget (**U**) and GST paid $600 over (**U**); Wages and the shelving purchase matched budget. The net cash inflow rose from a budgeted $17 000 to an actual $21 400 — a variance of **$4 400 F** (favourable $8 000 − unfavourable $3 600).

Variance Report — Cash for the month ended 31 August 2026	Budget $	Actual $	Variance $	F/U
Cash inflows				
Cash sales	42 000	48 000	6 000	F
Receipts from Accounts Receivable	28 000	30 000	2 000	F
Cash outflows				
Payments to Accounts Payable	26 000	29 000	3 000	U
Wages	14 000	14 000	–	–
GST paid	4 000	4 600	600	U
Purchase of shelving	9 000	9 000	–	–
Net cash flow	**17 000**	**21 400**	**4 400**	**F**

∴ actual net cash inflow of $21 400 **exceeded budget by $4 400 (F)**, led by stronger-than-planned cash sales and collections from Accounts Receivable.

Practice questions — scaffolded

Question 1

Hillcrest Bakery budgeted the following for the month ended 30 September 2026: Sales revenue $64 000; Cost of Sales $38 000; Wages $11 000; Rent expense $4 500; Advertising $2 200. Its actual results were: Sales revenue $68 000; Cost of Sales $41 000; Wages $10 600; Rent expense $4 500; Advertising $2 900.

a. Prepare a net profit variance report, showing the variance and F/U label for each item.

b. State the net profit variance and label it F or U.

c. Identify the expense with the largest unfavourable variance.

Question 2

Rivergum Nursery budgeted these cash flows for the month ended 30 September 2026: Cash sales $50 000; Receipts from Accounts Receivable $18 000; Payments to Accounts Payable $28 000; Wages $15 000; GST paid $3 200. Its actual cash flows were: Cash sales $53 000; Receipts from Accounts Receivable $16 500; Payments to Accounts Payable $30 000; Wages $14 000; GST paid $3 200.

a. Prepare a cash variance report, showing the variance and F/U label for each item.

b. State the net cash flow variance and label it F or U.

c. Explain, in one sentence, why receiving less from Accounts Receivable than budgeted is an unfavourable variance.

Question 3

Brightside Auto is reviewing its budget against its actual results. For each item below the budgeted and actual figures are: Sales revenue $95 000 / $102 000; Cost of Sales $57 000 / $62 000; Wages $19 000 / $17 500; Discount revenue $1 000 / $800; Advertising $3 500 / $3 500; Interest expense $2 200 / $2 600.

a. State the variance and F/U label (or "no variance") for each item.

b. Calculate the budgeted net profit and the actual net profit, and state the net profit variance with its F/U label.

c. Explain, in one or two sentences, the rule that decides whether a variance is favourable or unfavourable, referring to how revenue items and expense items differ.

Question 4

Crestwood Sports budgeted a net profit of $17 500 for the month ended 31 October 2026 from: Sales revenue $180 000; Cost of Sales $108 000; Wages $30 000; Rent expense $14 000; Advertising $7 000; Interest expense $3 500. Its actual results were: Sales revenue $171 000; Cost of Sales $99 000; Wages $32 000; Rent expense $14 000; Advertising $6 000; Interest expense $3 500.

a. Prepare a net profit variance report.

b. State the net profit variance and label it F or U.

c. The Cost of Sales variance is favourable while the Sales variance is unfavourable. Suggest one reason for this, and discuss in one or two sentences whether the favourable Cost of Sales variance is genuinely good news.

Question 5

Parkland Grocers began the month with a Bank balance of $12 000. For the month ended 31 October 2026 it budgeted: Cash sales $46 000; Receipts from Accounts Receivable $20 000; Payments to Accounts Payable $25 000; Wages $13 000; GST paid $2 800; Drawings $4 000. Its actual cash flows were: Cash sales $50 000; Receipts from Accounts Receivable $18 000; Payments to Accounts Payable $27 000; Wages $13 000; GST paid $3 100; Drawings $5 000.

a. Prepare a cash variance report, including the reconciliation to the closing Bank balance.

b. State the net cash flow variance (F or U) and state the budgeted and actual Bank balance at the end of the month.

c. Explain, in one sentence, why drawings that are higher than budgeted produce an unfavourable cash variance even though drawings are not an expense.

Question 6

Answer the following in structured prose.

a. Explain what an unfavourable sales variance suggests about a period's performance, and state one possible cause.

b. Explain one corrective action a business could take in response to a persistent unfavourable wages variance.

c. A business owner sets next year's budget deliberately low — modest sales targets and generous expense allowances — so that the actual results will nearly always show favourable variances. Discuss one ethical consideration raised by this practice.

Practice questions — unscaffolded

Question 7

Ironbark Timber & Hardware budgeted the following for the month ended 30 November 2026: Sales revenue $240 000; Cost of Sales $144 000; Wages $38 000; Rent expense $16 000; Advertising $8 000; Interest expense $4 500. Its actual results were: Sales revenue $252 000; Cost of Sales $155 000; Wages $37 000; Rent expense $16 000; Advertising $9 500; Interest expense $4 200. Prepare a net profit variance report and state the net profit variance with its F/U label.

Question 8

Trailhead Outdoor budgeted these cash flows for the month ended 30 November 2026: Cash sales $85 000; Receipts from Accounts Receivable $38 000; Payments to Accounts Payable $52 000; Wages $22 000; Rent paid $9 000; GST paid $5 500. Its actual cash flows were: Cash sales $89 000; Receipts from Accounts Receivable $35 000; Payments to Accounts Payable $55 000; Wages $21 000; Rent paid $9 000; GST paid $6 000. Prepare a cash variance report and state the net cash flow variance with its F/U label.

Question 9

Bluestone Merchants has the following budgeted and actual figures: Sales revenue $175 000 / $168 000; Discount revenue $2 500 / $3 000; Cost of Sales $105 000 / $100 000; Wages $28 000 / $31 000; Discount expense $1 200 / $900; Advertising $5 000 / $5 000. State the variance and F/U label for each item, then state the total favourable variances, the total unfavourable variances, and the net profit variance with its label.

Question 10

Eastvale Electrical budgeted a net profit of $42 500 for the month ended 31 December 2026 from: Sales revenue $300 000; Cost of Sales $180 000; Wages $45 000; Rent expense $18 000; Advertising $9 000; Interest expense $5 500. Its actual results were: Sales revenue $312 000; Cost of Sales $196 000; Wages $44 000; Rent expense $18 000; Advertising $13 000; Interest expense $5 900. Prepare a net profit variance report, state the net profit variance, identify the item with the largest unfavourable variance and suggest one cause, and explain in one sentence why net profit fell even though sales rose.

Question 11

Brookhaven Cafe began the month with a Bank balance of $5 000. For the month ended 31 December 2026 it budgeted: Cash sales $38 000; Payments to Accounts Payable $19 000; Wages $11 000; Rent paid $6 000; GST paid $2 300. Its actual cash flows were: Cash sales $33 000; Payments to Accounts Payable $21 000; Wages $11 500; Rent paid $6 000; GST paid $1 900. Prepare a cash variance report, state the net cash flow variance with its F/U label, and state how the closing Bank balance is reported.

Question 12

Oakridge Supplies has lost its actual figures but still has this variance report for the month ended 31 January 2027: Sales revenue budget $130 000, variance $6 000 F; Cost of Sales budget $78 000, variance $4 000 U; Wages budget $22 000, variance $1 000 F; Advertising budget $4 500, variance $1 500 U. Rent expense (budget $9 000) and Interest expense (budget $2 500) had no variance. Determine each **actual** figure, then calculate the budgeted net profit, the actual net profit and the net profit variance with its label.

Question 13

Riverstone Joinery budgeted a net profit of $19 900 for the month ended 31 January 2027 from: Sales revenue $135 000; Cost of Sales $81 000; Wages $21 000; Advertising $3 800; Rent expense $7 500; Interest expense $1 800. Its actual results were: Sales revenue $150 000; Cost of Sales $92 000; Wages $23 000; Advertising $5 000; Rent expense $7 500; Interest expense $1 800. Prepare a net profit variance report, state the net profit variance with its label, and explain in two sentences what the pattern of variances reveals about the business's expense control.

Question 14

Lakeshore Interiors budgeted $14 000 to service and repair its delivery vehicles and workshop equipment, but spent only $8 000, producing a favourable expense variance. The manager, whose bonus depends on beating the expense budget, achieved the saving by postponing scheduled servicing.

a. Calculate the maintenance variance and label it F or U.

b. Discuss why this favourable variance may not actually be good news for the business.

c. Discuss one ethical consideration raised by the manager postponing servicing in order to earn a bonus.

Question 15

Westend Motors budgeted these cash flows for the month ended 28 February 2027: Cash sales $115 000; Receipts from Accounts Receivable $48 000; Proceeds from sale of vehicle $11 000; Payments to Accounts Payable $68 000; Wages $29 000; Purchase of equipment $22 000; GST paid $6 500. Its actual cash flows were: Cash sales $122 000; Receipts from Accounts Receivable $45 000; Proceeds from sale of vehicle $13 000; Payments to Accounts Payable $71 000; Wages $28 000; Purchase of equipment $22 000; GST paid $7 000. Prepare a cash variance report and state the net cash flow variance with its F/U label.

Question 16

A review of Redgum Cellars' budget against its actual Income Statement produced these line variances: Sales revenue $8 000 F; Cost of Sales $2 500 F; Interest expense $300 F; Wages $3 000 U; Advertising $1 600 U; Rent expense $900 U. Without preparing a full report, state the total favourable variances, the total unfavourable variances, and the net profit variance with its label. Explain in one sentence how the net profit variance relates to the individual variances.

Question 17

Explain, with reference to the effect on net profit, why an actual expense that is **higher** than budgeted produces an unfavourable variance while actual revenue that is **higher** than budgeted produces a favourable variance. Then explain, in one further sentence, why a variance is labelled by its effect on profit rather than simply by whether the actual figure is larger than the budgeted figure.

Question 18

Cornerstone Building Supplies budgeted a net profit of $66 500 for the year ended 30 June 2026 from: Sales revenue $460 000; Discount revenue $2 800; Cost of Sales $276 000; Wages $68 000; Rent expense $28 000; Advertising $14 000; Interest expense $8 500; Discount expense $1 800. Its actual results were: Sales revenue $486 000; Discount revenue $3 500; Cost of Sales $298 000; Wages $66 000; Rent expense $28 000; Advertising $17 000; Interest expense $8 000; Discount expense $2 200. Prepare a net profit variance report and state the net profit variance with its F/U label.

Answers

1.
    b. Net profit variance $700 F. c. Cost of Sales ($3 000 U)
2.
    b. Net cash flow variance $500 F
3.
    a. Sales $7 000 F; Cost of Sales $5 000 U; Wages $1 500 F; Discount revenue $200 U; Advertising no variance; Interest $400 U. b. Budgeted net profit $14 300; actual net profit $17 200; net profit variance $2 900 F
4.
    b. Net profit variance $1 000 U
5.
    b. Net cash flow variance $1 300 U; budgeted Bank at end $33 200, actual Bank at end $31 900
6. See solutions
7. Net profit variance $800 F (budget $29 500; actual $30 300)
8. Net cash flow variance $1 500 U (budget $34 500; actual $33 000)
9. Sales $7 000 U; Discount revenue $500 F; Cost of Sales $5 000 F; Wages $3 000 U; Discount expense $300 F; Advertising no variance. Total F $5 800; total U $10 000; net profit variance $4 200 U
10. Net profit variance $7 400 U; largest unfavourable variance Cost of Sales $16 000 U
11. Net cash flow variance $7 100 U; closing Bank a Bank Overdraft of $2 400 (a current liability)
12. Actual: Sales $136 000; Cost of Sales $82 000; Wages $21 000; Advertising $6 000. Budget net profit $14 000; actual net profit $15 500; net profit variance $1 500 F
13. Net profit variance $800 F
14. See solutions
15. Net cash flow variance $3 500 F (budget $48 500; actual $52 000)
16. Total F $10 800; total U $5 500; net profit variance $5 300 F
17. See solutions
18. Net profit variance $3 800 F (budget $66 500; actual $70 300)

Fully-worked solutions

Question 1

Variance Report — Net Profit for the month ended 30 September 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	64 000	68 000	4 000	F
Cost of Sales	38 000	41 000	3 000	U
Wages	11 000	10 600	400	F
Rent expense	4 500	4 500	–	–
Advertising	2 200	2 900	700	U
Net Profit	**8 300**	**9 000**	**700**	**F**

b. Net profit variance = actual $9 000 − budget $8 300 = **$700 F**. Check: favourable $4 400 (4 000 + 400) − unfavourable $3 700 (3 000 + 700) = $700 F.

c. The largest unfavourable variance is **Cost of Sales, $3 000 U** (Advertising is $700 U).

Question 2

Variance Report — Cash for the month ended 30 September 2026	Budget $	Actual $	Variance $	F/U
Cash inflows				
Cash sales	50 000	53 000	3 000	F
Receipts from Accounts Receivable	18 000	16 500	1 500	U
Cash outflows				
Payments to Accounts Payable	28 000	30 000	2 000	U
Wages	15 000	14 000	1 000	F
GST paid	3 200	3 200	–	–
Net cash flow	**21 800**	**22 300**	**500**	**F**

b. Net cash flow variance = actual $22 300 − budget $21 800 = **$500 F**. Check: favourable $4 000 (3 000 + 1 000) − unfavourable $3 500 (1 500 + 2 000) = $500 F.

c. Receipts from Accounts Receivable are a cash **inflow**; collecting $1 500 **less** than budgeted means less cash entered the Bank than planned, which reduces the business's cash position — unfavourable.

Question 3

a. Sales revenue **$7 000 F** (revenue above budget); Cost of Sales **$5 000 U** (expense above budget); Wages **$1 500 F** (expense below budget); Discount revenue **$200 U** (revenue below budget); Advertising **no variance** (actual equals budget); Interest expense **$400 U** (expense above budget).

b. Budgeted net profit = $95 000 + $1 000 − $57 000 − $19 000 − $3 500 − $2 200 = **$14 300**. Actual net profit = $102 000 + $800 − $62 000 − $17 500 − $3 500 − $2 600 = **$17 200**. Net profit variance = $17 200 − $14 300 = **$2 900 F**. Check: favourable $8 500 (7 000 + 1 500) − unfavourable $5 600 (5 000 + 200 + 400) = $2 900 F.

c. A variance is favourable when it **increases** profit and unfavourable when it **decreases** profit. For a **revenue** item, an actual **above** budget is favourable (more revenue = more profit); for an **expense** item the rule reverses — an actual **above** budget is unfavourable (more expense = less profit), while an actual below budget is favourable.

Question 4

Variance Report — Net Profit for the month ended 31 October 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	180 000	171 000	9 000	U
Cost of Sales	108 000	99 000	9 000	F
Wages	30 000	32 000	2 000	U
Rent expense	14 000	14 000	–	–
Advertising	7 000	6 000	1 000	F
Interest expense	3 500	3 500	–	–
Net Profit	**17 500**	**16 500**	**1 000**	**U**

b. Net profit variance = actual $16 500 − budget $17 500 = **$1 000 U**. Check: favourable $10 000 (9 000 + 1 000) − unfavourable $11 000 (9 000 + 2 000) = −$1 000, i.e. $1 000 U.

c. Sales fell $9 000 short of budget, so **fewer units were sold than planned**; because Cost of Sales moves with the number of units sold, it fell too ($9 000 F). The favourable Cost of Sales variance is therefore **not**

genuinely good news — it is a symptom of the unfavourable sales result, not evidence that the business bought or used inventory more efficiently.

Question 5

Variance Report — Cash for the month ended 31 October 2026	Budget $	Actual $	Variance $	F/U
Cash inflows				
Cash sales	46 000	50 000	4 000	F
Receipts from Accounts Receivable	20 000	18 000	2 000	U
Cash outflows				
Payments to Accounts Payable	25 000	27 000	2 000	U
Wages	13 000	13 000	–	–
GST paid	2 800	3 100	300	U
Drawings	4 000	5 000	1 000	U
Net cash flow	**21 200**	**19 900**	**1 300**	**U**
add Bank balance at start (1 October 2026)	12 000	12 000	–	–
Bank balance at end (31 October 2026)	**33 200**	**31 900**	**1 300**	**U**

b. Net cash flow variance = actual $19 900 − budget $21 200 = **$1 300 U**. Budgeted Bank at end **$33 200**; actual Bank at end **$31 900**.

c. Drawings are a cash **outflow**; paying the owner $1 000 more than budgeted means $1 000 more cash left the Bank than planned, reducing the closing balance — an unfavourable effect on cash.

Question 6

a. An unfavourable sales variance means **actual sales were below budget**, suggesting the period performed worse than planned in generating revenue. One possible cause is **increased competition** (or lower selling prices, fewer units sold, or a downturn in the economy).

b. In response to a persistent unfavourable wages variance the business could **review staff rostering and hours** to match labour to trading levels — for example reducing overtime or adjusting shifts — so that actual wages are brought back into line with the budgeted amount.

c. Setting the budget deliberately low is a form of **budgetary slack** that undermines the **faithful representation** and usefulness of the whole system: the favourable variances it manufactures make performance look better than it really is, misleading the owner (and any lender or partner who relies on the reports) and removing the pressure to improve. Ethically, a budget should be an **honest, realistic** target; padding it to guarantee favourable variances puts the manager's self-interest (looking good, or earning a bonus) ahead of the business's stakeholders and defeats the purpose of comparing actual results with a genuine plan.

Question 7

Variance Report — Net Profit for the month ended 30 November 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	240 000	252 000	12 000	F
Cost of Sales	144 000	155 000	11 000	U
Wages	38 000	37 000	1 000	F
Rent expense	16 000	16 000	–	–
Advertising	8 000	9 500	1 500	U
Interest expense	4 500	4 200	300	F
Net Profit	**29 500**	**30 300**	**800**	**F**

Net profit variance = actual \$30 300 − budget \$29 500 = **\$800 F**. Check: favourable \$13 300 (12 000 + 1 000 + 300) − unfavourable \$12 500 (11 000 + 1 500) = \$800 F.

Question 8

Variance Report — Cash for the month ended 30 November 2026	Budget $	Actual $	Variance $	F/U
Cash inflows				
Cash sales	85 000	89 000	4 000	F
Receipts from Accounts Receivable	38 000	35 000	3 000	U
Cash outflows				
Payments to Accounts Payable	52 000	55 000	3 000	U
Wages	22 000	21 000	1 000	F
Rent paid	9 000	9 000	–	–
GST paid	5 500	6 000	500	U
Net cash flow	**34 500**	**33 000**	**1 500**	**U**

Net cash flow variance = actual \$33 000 − budget \$34 500 = **\$1 500 U**. Check: favourable \$5 000 (4 000 + 1 000) − unfavourable \$6 500 (3 000 + 3 000 + 500) = −\$1 500, i.e. \$1 500 U.

Question 9

Item	Variance $	F/U
Sales revenue	7 000	U
Discount revenue	500	F
Cost of Sales	5 000	F
Wages	3 000	U
Discount expense	300	F
Advertising	–	–

Total favourable = \$500 + \$5 000 + \$300 = **\$5 800**. Total unfavourable = \$7 000 + \$3 000 = **\$10 000**. Net profit variance = \$5 800 − \$10 000 = **\$4 200 U** (actual net profit is \$4 200 below budget).

Question 10

Variance Report — Net Profit for the month ended 31 December 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	300 000	312 000	12 000	F
Cost of Sales	180 000	196 000	16 000	U
Wages	45 000	44 000	1 000	F
Rent expense	18 000	18 000	–	–
Advertising	9 000	13 000	4 000	U
Interest expense	5 500	5 900	400	U
Net Profit	**42 500**	**35 100**	**7 400**	**U**

Net profit variance = actual $35 100 − budget $42 500 = **$7 400 U** (favourable $13 000 − unfavourable $20 400). The largest unfavourable variance is **Cost of Sales, $16 000 U**; a likely cause is that suppliers' prices rose, so each unit sold cost more than budgeted. Net profit fell even though sales rose $12 000 because **Cost of Sales rose by more ($16 000)** than the extra sales, and Advertising and Interest also ran over budget, so the total unfavourable variances outweighed the favourable sales result.

Question 11

Variance Report — Cash for the month ended 31 December 2026	Budget $	Actual $	Variance $	F/U
Cash inflows				
Cash sales	38 000	33 000	5 000	U
Cash outflows				
Payments to Accounts Payable	19 000	21 000	2 000	U
Wages	11 000	11 500	500	U
Rent paid	6 000	6 000	–	–
GST paid	2 300	1 900	400	F
Net cash flow	**(300)**	**(7 400)**	**7 100**	**U**
add Bank balance at start (1 December 2026)	5 000	5 000	–	–
Bank balance at end (31 December 2026)	**4 700**	**(2 400)**	**7 100**	**U**

Both the budget and the actual show a net cash **deficit** (outflows exceed inflows), shown in brackets. Net cash flow variance = actual ($7 400) − budget ($300) = **$7 100 U** (favourable $400 − unfavourable $7 500). The actual closing balance of −$2 400 is reported as a **Bank Overdraft of $2 400** — a current liability — whereas the budget had expected a positive Bank balance of $4 700.

Question 12

Working back from each variance (a favourable revenue and an unfavourable expense mean actual is above budget; a favourable expense means actual is below budget):

Item	Budget $	Variance $	F/U	Actual $
Sales revenue	130 000	6 000	F	136 000

Item	Budget $	Variance $	F/U	Actual $
Cost of Sales	78 000	4 000	U	82 000
Wages	22 000	1 000	F	21 000
Advertising	4 500	1 500	U	6 000
Rent expense	9 000	–	–	9 000
Interest expense	2 500	–	–	2 500

Budget net profit = $130 000 − $78 000 − $22 000 − $4 500 − $9 000 − $2 500 = **$14 000**. Actual net profit = $136 000 − $82 000 − $21 000 − $6 000 − $9 000 − $2 500 = **$15 500**. Net profit variance = $15 500 − $14 000 = **$1 500 F** (favourable $7 000 − unfavourable $5 500).

Question 13

Variance Report — Net Profit for the month ended 31 January 2027	Budget $	Actual $	Variance $	F/U
Sales revenue	135 000	150 000	15 000	F
Cost of Sales	81 000	92 000	11 000	U
Wages	21 000	23 000	2 000	U
Advertising	3 800	5 000	1 200	U
Rent expense	7 500	7 500	–	–
Interest expense	1 800	1 800	–	–
Net Profit	**19 900**	**20 700**	**800**	**F**

Net profit variance = actual $20 700 − budget $19 900 = **$800 F** (favourable $15 000 − unfavourable $14 200). Although the overall result is favourable, **every expense variance is unfavourable** — Cost of Sales, Wages and Advertising all ran over budget. The favourable bottom line came entirely from the strong $15 000 F sales variance, so the business's **expense control was poor** and most of the extra profit its sales generated was eroded by overspending.

Question 14

a. The maintenance variance = $14 000 − $8 000 = **$6 000**, and because spending **$6 000 less** than budgeted on an **expense** increases net profit, it is labelled **$6 000 F**.

b. The favourable variance may not be good news because vehicle and equipment servicing is spending the business genuinely needs. Postponing it risks **breakdowns, safety hazards and lost sales**, and deferred servicing often costs **more** to put right later, so the $6 000 "saved" this period may cause much larger losses in future periods — the favourable label hides a decision that leaves the business worse off.

c. The manager is chasing a favourable variance and a **personal bonus** by cutting essential maintenance, putting their own interest ahead of the safety of staff and the public and the long-term interests of the owner. Ethically, decisions should serve the business and its stakeholders honestly, not be driven by the reward attached to a single line of a variance report; deferring servicing to look good on paper is **short-termism** that transfers risk onto employees, customers and the future performance of the business.

Question 15

Variance Report — Cash for the month ended 28 February 2027	Budget $	Actual $	Variance $	F/U
Cash inflows				
Cash sales	115 000	122 000	7 000	F

Variance Report — Cash for the month ended 28 February 2027	Budget $	Actual $	Variance $	F/U
Receipts from Accounts Receivable	48 000	45 000	3 000	U
Proceeds from sale of vehicle	11 000	13 000	2 000	F
Cash outflows				
Payments to Accounts Payable	68 000	71 000	3 000	U
Wages	29 000	28 000	1 000	F
Purchase of equipment	22 000	22 000	–	–
GST paid	6 500	7 000	500	U
Net cash flow	**48 500**	**52 000**	**3 500**	**F**

Net cash flow variance = actual \$52 000 − budget \$48 500 = **\$3 500 F**. Check: favourable \$10 000 (7 000 + 2 000 + 1 000) − unfavourable \$6 500 (3 000 + 3 000 + 500) = \$3 500 F.

Question 16

Total favourable = \$8 000 + \$2 500 + \$300 = **\$10 800**. Total unfavourable = \$3 000 + \$1 600 + \$900 = **\$5 500**. Net profit variance = \$10 800 − \$5 500 = **\$5 300 F**. The net profit variance is simply the **total favourable variances less the total unfavourable variances** — each individual line adds to or subtracts from the overall movement in net profit, and here the favourable items outweigh the unfavourable by \$5 300.

Question 17

Net profit = revenue − expenses. An **expense** that is **higher** than budgeted **increases total expenses**, which **reduces net profit** below the planned level, so it is **unfavourable**. **Revenue** that is **higher** than budgeted **increases total revenue**, which **raises net profit** above the plan, so it is **favourable**. A variance is labelled by its **effect on profit** rather than by whether the actual simply exceeds the budget because the same direction of difference has opposite effects for the two item types — actual above budget is good for a revenue item but bad for an expense item — so only the effect on profit gives a consistent, meaningful label.

Question 18

Variance Report — Net Profit for the year ended 30 June 2026	Budget $	Actual $	Variance $	F/U
Sales revenue	460 000	486 000	26 000	F
Discount revenue	2 800	3 500	700	F
Cost of Sales	276 000	298 000	22 000	U
Wages	68 000	66 000	2 000	F
Rent expense	28 000	28 000	–	–
Advertising	14 000	17 000	3 000	U
Interest expense	8 500	8 000	500	F
Discount expense	1 800	2 200	400	U
Net Profit	**66 500**	**70 300**	**3 800**	**F**

Net profit variance = actual $70 300 − budget $66 500 = **$3 800 F**. Check: favourable $29 200 (26 000 + 700 + 2 000 + 500) − unfavourable $25 400 (22 000 + 3 000 + 400) = $3 800 F.