

Accounting Units 3 & 4

Chapter 17 Budgeting

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Contents

Section	Page
17A The budgeting process and the Budgeted Cash Flow Statement	2
17B Cash flows from credit transactions	21
17C The Budgeted Income Statement and Balance Sheet	34
17D Variance reports	54

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

Theory

Every report studied so far has looked **backwards**: the Income Statement, the Balance Sheet and the Cash Flow Statement all summarise what has **already happened**. A well-run business also needs to look **forwards** — to plan what it *expects* to happen so that it can prepare for it. A **budget** is a **quantified financial plan** prepared **before** the period it relates to. **Budgeting** is the process of preparing these plans and then using them to guide and control the business.

The purpose of budgeting. A budget turns the owner's expectations about the coming period into **dollar figures**, so that the business can see — in advance — the profit it expects to earn, the assets and liabilities it expects to hold and, above all, the **cash it expects to have**. Because a business can only pay wages, suppliers and loans with **cash**, planning cash ahead of time is the single most important thing a small business can do to survive.

The benefits of budgeting. Preparing a budget helps the owner to:

- **Plan ahead** — setting targets forces the owner to think through the period's trading, purchases and financing before it begins, rather than reacting to events as they arise.
- **Make better decisions** — a budget shows an expected cash **shortfall** (or surplus) *before* it happens, giving the owner time to arrange an overdraft or loan, delay a non-essential purchase, chase slow-paying customers or negotiate longer terms with suppliers.
- **Control the business** — the budgeted figures become a **benchmark**. After the period the owner compares the **actual** result against the budget in a **variance report**, identifies where the two differ, and takes corrective action. (You will prepare variance reports later in this chapter.)
- **Coordinate and motivate** — a budget ties together the plans of the whole business and gives the owner and staff clear targets to work towards.

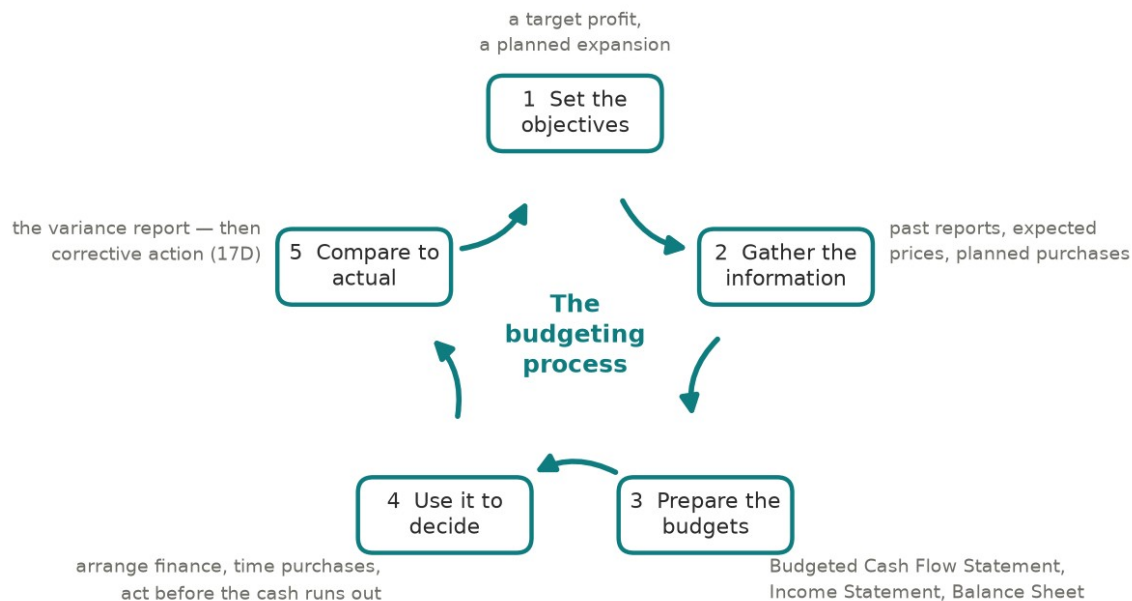
The limitations of budgeting. A budget is only an **estimate**. It is built on **assumptions** about the future — expected sales, prices, collection times — that may not hold if conditions change (a downturn, a price rise, a lost customer). A budget also takes **time and effort** to prepare, and it is only as reliable as the information behind it: figures based on poor data, or targets set unrealistically, can mislead rather than help. A budget therefore guides decisions; it does not guarantee the outcome.

The budgeting process. Preparing a budget is a series of steps:

1. **Set the objectives** for the period (for example, a target profit or a planned expansion).
2. **Gather the relevant information** — past reports, expected changes in selling prices and costs, and any planned transactions such as buying an asset, taking out a loan or contributing capital.
3. **Prepare the budgeted reports** — the **Budgeted Cash Flow Statement**, the **Budgeted Income Statement** and the **Budgeted Balance Sheet**.
4. **Use the budget to make decisions** — arranging finance, timing purchases, adjusting plans so the business does not run out of cash.
5. After the period, **compare actual against budget** (the variance report) and **take corrective action**, feeding what is learned back into the next budget.

Budgeting is a cycle

A budget guides decisions; the results then guide the next budget



Step 5 is not the end: what the variance report reveals becomes the information step 2 gathers for the next budget.

The five steps of the budgeting process, drawn as the loop they form

Step 5 is not the end of the list. What the variance report reveals becomes part of the information gathered at step 2 for the **next** budget, and that return is what makes budgeting a means of **control** rather than merely a forecast made once and filed.

The Budgeted Cash Flow Statement. The first report most small businesses prepare is the **Budgeted Cash Flow Statement**, because cash determines whether the rest of the plan is even possible. It uses the **same classified format** as the historical Cash Flow Statement — the very same three activities — but it is populated with the **planned, expected cash flows** for the coming period instead of the actual flows of a past one:

- **Operating activities** — expected cash from **day-to-day trading**: budgeted **cash sales, cash fees and receipts from Accounts Receivable** (GST-inclusive, i.e. the cash actually expected to be received), less budgeted **payments to Accounts Payable, payments for expenses** (wages, rent, advertising), **GST to be paid** to the ATO and **interest expense**.
- **Investing activities** — expected cash to **buy** non-current assets (an outflow) and expected **proceeds** from **selling** them (an inflow).
- **Financing activities** — expected dealings with the **owner and lenders**: planned **capital contributions** and **loans received** (inflows), and planned **loan-principal repayments** and **drawings** (outflows).

Every rule you learned for the historical statement still applies. **GST is a cash flow**, so budgeted GST received and paid is included. **Depreciation is not a cash flow** — it is an allocation of an asset's cost with no cash effect — so budgeted depreciation **never** appears in the Budgeted Cash Flow Statement (the cash outflow is the budgeted **purchase** of the asset, an investing flow). **Interest** on a loan is an **operating** outflow, while **repaying the principal** is a **financing** outflow.

Each activity is sub-totalled to give **Net Cash Flows from Operating / Investing / Financing Activities**, and the three sub-totals add to the **expected net increase or decrease in cash**. The statement then **reconciles** this to the Bank:

Expected opening Bank balance + budgeted net change in cash = expected closing Bank balance.

If the expected closing figure is **positive** it is the Bank balance forecast for the end of the period; if it is **negative** the business is **forecasting a Bank Overdraft** — an early warning that lets the owner arrange finance *before* the shortfall occurs.

Report title — a small but important change. Because a budget covers a **future** period, its title uses “**ending**”, not “**ended**”: *Budgeted Cash Flow Statement for the [period] ending [date]*. The word “ended” is reserved for a period that is already complete.

Worked model. Brookvale Cabinetry expects to begin August with a Bank balance of \$10 500. Its plans for the month ending 31 August 2026 are set out below. Budgeted outflows are shown in brackets, each activity is sub-totalled, and the three sub-totals reconcile the expected opening Bank balance to the expected closing balance.

Budgeted Cash Flow Statement for
the month ending 31 August 2026

	\$	\$
Operating Activities		
Cash sales	42 000	
Receipts from Accounts Receivable	24 000	
Payments to Accounts Payable	(28 000)	
Wages	(11 000)	
Rent expense	(4 500)	
GST paid	(3 200)	
Interest expense	(800)	
Net Cash Flows from Operating Activities		18 500
Investing Activities		
Purchase of equipment	(15 000)	
Proceeds from sale of van	5 000	
Net Cash Flows from Investing Activities		(10 000)
Financing Activities		
Capital contribution	8 000	
Loan – Nortide Finance	12 000	
Drawings	(3 500)	
Net Cash Flows from Financing Activities		16 500
Net Increase in Cash		25 000
add expected Bank balance at start (1 August 2026)		10 500
Expected Bank balance at end (31 August 2026)		35 500

The three sub-totals — \$18 500, (\$10 000) and \$16 500 — add to an expected **net increase of \$25 000**, which added to the expected opening \$10 500 gives an **expected closing Bank balance of \$35 500**. Notice that any depreciation Brookvale plans to record on its equipment is **not** here — a budget follows exactly the same cash rules as the historical statement.

Worked examples (scaffolded)

Example 1 — a service business: budgeted operating and financing flows, then the reconciliation

Aspenlee Physiotherapy (a clinic) expects to begin September with a Bank balance of \$6 400. Its plans for the month ending 30 September 2026 are: cash fees \$26 000; wages \$9 500; rent \$4 000; GST to be paid to the ATO \$1 800;

interest \$500; a capital contribution by the owner \$7 000; and drawings \$2 200. No investing flows are planned. Prepare the Budgeted Cash Flow Statement.

Working	Comment
Operating = cash fees – wages – rent – GST – interest = \$26 000 – \$9 500 – \$4 000 – \$1 800 – \$500 = \$10 200 .	Fees are the trading inflow; wages, rent, GST and interest are day-to-day (operating) outflows. Interest is operating, not financing — the same as in the historical statement.
Financing = capital – drawings = \$7 000 – \$2 200 = \$4 800 .	Cash the owner plans to put in is an inflow; planned drawings are an outflow. Both are dealings with the owner, so both are financing.
Net change = \$10 200 + \$4 800 = \$15 000 increase .	With no investing flows planned, the net change is operating + financing.
Expected closing Bank = \$6 400 + \$15 000 = \$21 400 .	Expected opening Bank + budgeted net change reconciles to the expected closing balance.

Budgeted Cash Flow Statement for
the month ending 30 September
2026

	\$	\$
Operating Activities		
Cash fees	26 000	
Wages	(9 500)	
Rent expense	(4 000)	
GST paid	(1 800)	
Interest expense	(500)	
Net Cash Flows from Operating Activities		10 200
Financing Activities		
Capital contribution	7 000	
Drawings	(2 200)	
Net Cash Flows from Financing Activities		4 800
Net Increase in Cash		15 000
add expected Bank balance at start (1 September 2026)		6 400
Expected Bank balance at end (30 September 2026)		21 400

Example 2 — a full three-activity Budgeted Cash Flow Statement

Harrowgate Timber Supplies expects to begin October with a Bank balance of \$12 000. Its plans for the month ending 31 October 2026 are: cash sales \$38 000; receipts from Accounts Receivable \$22 500; payments to Accounts Payable \$27 000; wages \$8 200; GST to be paid \$3 400; interest \$700; the purchase of a forklift \$19 000; proceeds from the planned sale of a vehicle \$6 000; a loan to be received from Kembla Finance \$16 000; and drawings \$3 200. Prepare the Budgeted Cash Flow Statement.

Working	Comment
Operating = (38 000 + 22 500) – (27 000 + 8 200 + 3 400 + 700) = \$60 500 – \$39 300 = \$21 200 .	Budgeted trading inflows less budgeted trading outflows (suppliers, wages, GST and interest).

Working	Comment
Investing = proceeds \$6 000 – purchase \$19 000 = (\$13 000) .	Buying the forklift is an outflow; selling the vehicle is an inflow. A net outflow is shown in brackets.
Financing = loan \$16 000 – drawings \$3 200 = \$12 800 .	The loan to be received is a financing inflow; drawings are a financing outflow.
Net change = \$21 200 – \$13 000 + \$12 800 = \$21 000 increase; expected closing Bank = \$12 000 + \$21 000 = \$33 000 .	The three sub-totals add to the net change, which reconciles the expected opening balance to \$33 000.

Budgeted Cash Flow Statement for the month ending 31 October 2026	\$	\$
Operating Activities		
Cash sales	38 000	
Receipts from Accounts Receivable	22 500	
Payments to Accounts Payable	(27 000)	
Wages	(8 200)	
GST paid	(3 400)	
Interest expense	(700)	
Net Cash Flows from Operating Activities		21 200
Investing Activities		
Purchase of forklift	(19 000)	
Proceeds from sale of vehicle	6 000	
Net Cash Flows from Investing Activities		(13 000)
Financing Activities		
Loan – Kembla Finance	16 000	
Drawings	(3 200)	
Net Cash Flows from Financing Activities		12 800
Net Increase in Cash		21 000
add expected Bank balance at start (1 October 2026)		12 000
Expected Bank balance at end (31 October 2026)		33 000

Worked examples (unscaffolded)

Example 3 — classifying budgeted flows; why budget, and why GST is a cash flow but depreciation is not

Meridian Cellars is preparing next month's budget. For each planned item below, state the activity (Operating, Investing or Financing) and whether it is an inflow or an outflow — or, if it is not a cash flow at all, say so: (i) budgeted cash sales \$11 000 plus \$1 100 GST; (ii) planned purchase of shelving \$16 000; (iii) a planned capital contribution \$25 000; (iv) budgeted GST to be paid to the ATO \$3 600; (v) budgeted depreciation of equipment \$5 000; (vi) budgeted interest to be paid \$1 200; (vii) a planned repayment of loan principal \$7 000; (viii) budgeted drawings \$2 600. Then state, in one sentence, one benefit Meridian gains from preparing this budget.

•

- (i) **Operating inflow** — the \$12 100 expected to be received (selling price **plus** the \$1 100 GST) is trading cash; the GST is real cash and is included.

- (ii) **Investing outflow** — a planned purchase of a non-current asset.
- (iii) **Financing inflow** — cash the owner plans to contribute.
- (iv) **Operating outflow** — settling the net GST with the ATO is a cash movement from trading.
- (v) **Not a cash flow** — depreciation is an allocation of the asset's cost, so it appears in the Budgeted Income Statement only, never in the Budgeted Cash Flow Statement.
- (vi) **Operating outflow** — interest is the budgeted cost of running the business for the period.
- (vii) **Financing outflow** — repaying principal changes how the business is funded.
- (viii) **Financing outflow** — a planned dealing with the owner.

The contrast between (i)/(iv) and (v) is the key idea, and it holds in a budget just as it does in the historical report: the **\$1 100 GST** on the sale and the **\$3 600 GST** to be paid both move cash, so both are budgeted; the **\$5 000 depreciation** moves **no cash**, so it is excluded. By preparing the budget, Meridian can see its expected cash position for the month **in advance**, so it can arrange finance for the \$16 000 shelving and the \$7 000 loan repayment before the cash is needed.

∴ every planned item is placed by its **nature** — trading, investing or financing — and a non-cash item like depreciation is left out of the Budgeted Cash Flow Statement entirely.

Example 4 — preparing a Budgeted Cash Flow Statement from a full year's plans

Fernhill Cycles expects to begin the year with a Bank balance of \$11 200. Its plans for the year ending 30 June 2027 are: cash sales \$132 000; receipts from Accounts Receivable \$78 000; payments to Accounts Payable \$98 000; wages \$40 000; GST to be paid \$15 000; advertising \$6 500; interest \$2 900; the purchase of a shop fit-out \$42 000; proceeds from the planned sale of an old van \$13 000; a capital contribution \$20 000; a loan from Coastvale Bank \$25 000; and drawings \$18 500. Prepare the Budgeted Cash Flow Statement.

Budgeted operating cash is $\$132\,000 + \$78\,000 = \$210\,000$ in, less $\$98\,000 + \$40\,000 + \$15\,000 + \$6\,500 + \$2\,900 = \$162\,400$ out, a net operating inflow of \$47 600. Investing is \$13 000 in less \$42 000 out = (\$29 000). Financing is $\$20\,000 + \$25\,000$ in less \$18 500 out = \$26 500. The net change is $\$47\,600 - \$29\,000 + \$26\,500 = \$45\,100$, which added to the expected opening \$11 200 gives an expected closing Bank balance of \$56 300.

Budgeted Cash Flow Statement for
the year ending 30 June 2027

	\$	\$
Operating Activities		
Cash sales	132 000	
Receipts from Accounts Receivable	78 000	
Payments to Accounts Payable	(98 000)	
Wages	(40 000)	
GST paid	(15 000)	
Advertising	(6 500)	
Interest expense	(2 900)	
Net Cash Flows from Operating Activities		47 600
Investing Activities		
Purchase of shop fit-out	(42 000)	

Budgeted Cash Flow Statement for
the year ending 30 June 2027

	\$	\$
Proceeds from sale of old van	13 000	
Net Cash Flows from Investing Activities		(29 000)
Financing Activities		
Capital contribution	20 000	
Loan – Coastvale Bank	25 000	
Drawings	(18 500)	
Net Cash Flows from Financing Activities		26 500
Net Increase in Cash		45 100
add expected Bank balance at start (1 July 2026)		11 200
Expected Bank balance at end (30 June 2027)		56 300

∴ Fernhill expects its cash to grow by \$45 100 over the year — strong budgeted operating cash funds most of the fit-out, with the loan and the owner's contribution covering the rest and still leaving an expected \$56 300 in the Bank.

Practice questions — scaffolded

Question 1

Rosedale Supplies is classifying its budgeted cash flows for the coming month.

- State, for each planned item, the activity (Operating, Investing or Financing) and whether it is an inflow or an outflow: (i) budgeted cash sales of inventory; (ii) planned cash to buy a delivery van; (iii) cash the owner plans to contribute; (iv) budgeted payments to Accounts Payable; (v) budgeted cash drawings by the owner; (vi) expected cash from selling old office equipment; (vii) expected cash from a bank loan; (viii) budgeted interest on the loan.
- From these budgeted operating flows, calculate the Net Cash Flows from Operating Activities: cash sales \$45 000; receipts from Accounts Receivable \$28 000; payments to Accounts Payable \$33 000; wages \$13 000; GST to be paid \$3 600; interest \$1 300.
- Explain, in one sentence, why the planned purchase of the delivery van is classified as an investing flow rather than an operating flow.

Question 2

Brightwood Consulting expects to begin the month with a Bank balance of \$6 500. Its plans for the month ending 30 April 2027 are: cash fees \$60 000; payments to Accounts Payable \$34 000; wages \$15 000; GST to be paid \$4 800; interest \$1 500. No investing or financing flows are planned.

- Prepare the Operating Activities section of the Budgeted Cash Flow Statement and state the Net Cash Flows from Operating Activities.
- State the expected closing Bank balance.
- Explain, in one sentence, why the budgeted interest is an operating flow while a planned **repayment of loan principal** would be a financing flow.

Question 3

Oakmere Traders expects to begin the month with a Bank balance of \$7 500. Its plans for the month ending 31 May 2027 are: cash sales \$37 000; receipts from Accounts Receivable \$16 000; payments to Accounts Payable \$23 000; wages \$8 500; GST to be paid \$2 700; interest \$900; the purchase of equipment \$15 000; proceeds from the planned sale of a vehicle \$4 800; a loan from Highvale Finance \$13 000; drawings \$2 400.

- a. Prepare the classified Budgeted Cash Flow Statement for the month.
- b. State the budgeted net change in cash for the month.
- c. State the expected Bank balance at the end of the month.

Question 4

Pinehurst Motors is preparing the investing section of its Budgeted Cash Flow Statement for the year ending 30 June 2027.

- a. State the activity (Operating, Investing or Financing) of each planned item: (i) purchase of machinery; (ii) cash sales; (iii) repayment of loan principal; (iv) proceeds from the sale of a vehicle; (v) GST to be paid.
- b. Prepare the Investing Activities section and state the Net Cash Flows from Investing Activities: purchase of machinery \$28 000; proceeds from the planned sale of a vehicle \$9 500; purchase of fittings \$6 000.
- c. Explain, in one sentence, why buying a non-current asset is an investing flow.

Question 5

Stonefield Joinery expects to begin the month with a Bank balance of \$4 800. Its budgeted Net Cash Flows from Operating Activities for the month ending 30 June 2027 are \$10 500, and no investing flows are planned. Its budgeted financing plans are: a capital contribution \$18 000; a loan from Ironvale Finance \$30 000; a repayment of loan principal to Ironvale Finance \$12 000; and drawings \$3 600.

- a. Prepare the Financing Activities section and state the Net Cash Flows from Financing Activities.
- b. Calculate the budgeted net change in cash and the expected closing Bank balance.
- c. Distinguish, in one sentence, between the capital contribution and the drawings.

Question 6

Larkfield Bakery is preparing the operating section of its Budgeted Cash Flow Statement. Its plans for the month show: cash sales \$41 000; payments to Accounts Payable \$23 000; wages \$9 500; GST to be paid \$3 100; and depreciation of ovens \$5 200.

- a. Explain, in one sentence, one benefit Larkfield gains from preparing a Budgeted Cash Flow Statement.
- b. Calculate the Net Cash Flows from Operating Activities.
- c. Explain why the budgeted GST to be paid is included in your answer to (b) but the budgeted depreciation of the ovens is not.

Practice questions — unscaffolded

Question 7

Havenbrook Trading is classifying its budgeted cash flows. State, for each planned item, the activity (Operating, Investing or Financing) and whether it is an inflow or an outflow: (i) cash from budgeted cash sales; (ii) cash budgeted for wages; (iii) cash planned to buy a new photocopier; (iv) cash the owner plans to contribute as additional capital; (v) expected cash from selling a used truck; (vi) budgeted cash drawings by the owner; (vii) budgeted GST to be paid to the ATO; (viii) expected cash from a loan.

Question 8

Cedarvale Hardware expects to begin the month with a Bank balance of \$8 300. Its plans for the month ending 30 September 2026 are: cash sales \$45 000; receipts from Accounts Receivable \$27 000; payments to Accounts Payable \$34 000; wages \$11 500; GST to be paid \$3 500; interest \$1 000; the purchase of a forklift \$21 000; proceeds from the planned sale of an old vehicle \$7 200; a capital contribution \$10 000; and drawings \$2 800. Prepare the classified Budgeted Cash Flow Statement and state the expected Bank balance at the end of the month.

Question 9

Tidepoint Marine expects to begin the month with a Bank balance of \$3 200. Its plans for the month ending 31 October 2026 are: cash sales \$20 000; payments to Accounts Payable \$18 500; wages \$9 000; GST to be paid \$2 300; interest \$600; the purchase of workshop equipment \$14 000; a loan from Seabright Finance \$6 000; and drawings \$2 000. Prepare the classified Budgeted Cash Flow Statement, state the budgeted net change in cash, and state how the expected closing Bank balance is reported. Explain, in one sentence, how preparing this budget helps the owner.

Question 10

Willowfield Florist's budgeted operating plans for the year ending 30 June 2027 are: cash sales \$66 000; receipts from Accounts Receivable \$39 000; payments to Accounts Payable \$48 000; wages \$20 000; GST to be paid \$5 400; and interest \$1 700. Prepare the Operating Activities section of the Budgeted Cash Flow Statement and state the Net Cash Flows from Operating Activities.

Question 11

Graniteford Quarry's budgeted investing plans for the year ending 30 June 2027 are: the purchase of an excavator \$88 000; proceeds from the planned sale of a truck \$23 000; and the purchase of a screening plant \$14 000. Prepare the Investing Activities section and state the Net Cash Flows from Investing Activities. Explain, in one sentence, why a large budgeted investing **outflow** is not necessarily a sign of poor planning.

Question 12

Ashgrove Furniture's budgeted financing plans for the year ending 30 June 2027 are: a capital contribution \$42 000; a loan from Parkvale Bank \$50 000; a repayment of loan principal to Parkvale Bank \$22 000; and drawings \$9 500. Prepare the Financing Activities section and state the Net Cash Flows from Financing Activities.

Question 13

Silverpine Cellars expects to begin the year with a Bank balance of \$16 000. Its plans for the year ending 30 June 2027 are: cash sales \$252 000; receipts from Accounts Receivable \$122 000; payments to Accounts Payable \$184 000; wages \$74 000; GST to be paid \$22 000; interest \$9 800; the purchase of a bottling plant \$62 000; proceeds from the planned sale of a vehicle \$19 000; a capital contribution \$30 000; a loan from Vineford Finance \$40 000; and drawings \$29 000. Prepare the classified Budgeted Cash Flow Statement and state the expected Bank balance at the end of the year.

Question 14

Explain, with reference to the cash basis of the Budgeted Cash Flow Statement, why **budgeted GST to be paid on a cash purchase** is reported in the Budgeted Cash Flow Statement but **budgeted depreciation** is not. In your answer, refer to the \$600 GST on a planned \$6 000 (plus GST) cash purchase, and explain in one further sentence why a business can budget for a profit yet still budget for its cash to fall.

Question 15

Copperline Cafe's Budgeted Cash Flow Statement for the month shows a **budgeted net decrease in cash of \$3 600**, and the expected Bank balance at the end of the month is \$4 900. Calculate the expected Bank balance at the **start** of the month, and explain in one sentence how the reconciliation at the foot of the statement works.

Question 16

Redstone Panelbeating has the following budgeted loan-related cash flows for the year ending 30 June 2027: a loan to be received from Fairway Finance \$36 000; a planned repayment of loan principal to Fairway Finance \$7 500; and budgeted interest on the loan \$2 000.

State the activity of each of the three planned items, prepare the Financing Activities section (loan flows only), state the Net Cash Flows from Financing Activities, and explain in one sentence why the interest is **not** included in that figure.

Question 17

Northvale Electrical expects to begin the month with a Bank balance of \$21 000. Its plans for the month ending 30 November 2026 are: cash sales \$54 000; receipts from Accounts Receivable \$20 000; payments to Accounts Payable

\$39 000; wages \$13 000; GST to be paid \$4 300; interest \$1 400; the purchase of a van \$17 000; a repayment of loan principal to Westgate Finance \$8 500; and drawings \$3 200. Prepare the classified Budgeted Cash Flow Statement and state the expected Bank balance at the end of the month. Explain, in one sentence, why the business's cash is budgeted to fall even though its operating activities are expected to generate cash.

Question 18

Embervale Nursery expects to begin the year with a Bank balance of \$13 200. Its plans for the year ending 30 June 2027 are: cash sales \$192 000; receipts from Accounts Receivable \$98 000; payments to Accounts Payable \$146 000; wages \$56 000; GST to be paid \$18 000; interest \$7 400; the purchase of land improvements \$49 000; proceeds from the planned sale of a vehicle \$16 000; the purchase of fittings \$9 500; a capital contribution \$26 000; a loan from Greenvale Bank \$35 000; and drawings \$23 000. Prepare the classified Budgeted Cash Flow Statement and state the expected Bank balance at the end of the year.

Answers

1.
 - a.
 - (i) Operating inflow (ii) Investing outflow (iii) Financing inflow (iv) Operating outflow (v) Financing outflow (vi) Investing inflow (vii) Financing inflow (viii) Operating outflow.
 - b. Net Cash Flows from Operating \$22 100. c. See solutions
2.
 - a. Net Cash Flows from Operating \$4 700. b. Expected closing Bank \$11 200. c. See solutions
3.
 - b. Budgeted net increase \$18 300. c. Expected Bank at end \$25 800
4.
 - a.
 - (i) Investing (ii) Operating (iii) Financing (iv) Investing (v) Operating.
 - b. Net Cash Flows from Investing (\$24 500). c. See solutions
5.
 - a. Net Cash Flows from Financing \$32 400. b. Net change \$42 900; expected closing Bank \$47 700
6.
 - b. Net Cash Flows from Operating \$5 400
7.
 - (i) Operating inflow (ii) Operating outflow (iii) Investing outflow (iv) Financing inflow (v) Investing inflow (vi) Financing outflow (vii) Operating outflow (viii) Financing inflow
8. Budgeted net increase \$15 400; expected Bank at end \$23 700
9. Budgeted net decrease \$20 400; expected Bank Overdraft at end \$17 200 (a current liability)
10. Net Cash Flows from Operating \$29 900
11. Net Cash Flows from Investing (\$79 000)
12. Net Cash Flows from Financing \$60 500
13. Budgeted net increase \$82 200; expected Bank at end \$98 200
14. See solutions
15. Expected opening Bank \$8 500
16. Net Cash Flows from Financing \$28 500 (budgeted interest \$2 000 is an operating flow)
17. Budgeted net decrease \$12 400; expected Bank at end \$8 600
18. Budgeted net increase \$58 100; expected Bank at end \$71 300

Fully-worked solutions

Question 1

- a.
 - (i) **Operating inflow**; (ii) **Investing outflow**; (iii) **Financing inflow**; (iv) **Operating outflow**; (v) **Financing outflow**; (vi) **Investing inflow**; (vii) **Financing inflow**; (viii) **Operating outflow**.
- b. Net Cash Flows from Operating = $(\$45\,000 + \$28\,000) - (\$33\,000 + \$13\,000 + \$3\,600 + \$1\,300) = \$73\,000 - \$50\,900 = \mathbf{\$22\,100}$.
- c. Buying the delivery van acquires a **non-current asset** the business will use over several years, so it is an **investing** flow, not part of the day-to-day trading reported under operating activities.

Question 2

Budgeted Cash Flow Statement
(extract) for the month ending 30
April 2027

\$

\$

Operating Activities



Budgeted Cash Flow Statement
(extract) for the month ending 30
April 2027

	\$	\$
Cash fees	60 000	
Payments to Accounts Payable	(34 000)	
Wages	(15 000)	
GST paid	(4 800)	
Interest expense	(1 500)	
Net Cash Flows from Operating Activities		4 700

Net Cash Flows from Operating = \$60 000 – (\$34 000 + \$15 000 + \$4 800 + \$1 500) = \$60 000 – \$55 300 = **\$4 700**.

- Expected closing Bank = expected opening \$6 500 + net change \$4 700 = **\$11 200** (no investing or financing flows are planned, so the net change equals the operating figure).
- The **interest** is the budgeted cost of using the borrowed money during the period — a day-to-day cost of running the business, hence **operating** — whereas a **repayment of principal** would return the borrowed funds and change how the business is **financed**, hence **financing**.

Question 3

Budgeted Cash Flow Statement for
the month ending 31 May 2027

	\$	\$
Operating Activities		
Cash sales	37 000	
Receipts from Accounts Receivable	16 000	
Payments to Accounts Payable	(23 000)	
Wages	(8 500)	
GST paid	(2 700)	
Interest expense	(900)	
Net Cash Flows from Operating Activities		17 900
Investing Activities		
Purchase of equipment	(15 000)	
Proceeds from sale of vehicle	4 800	
Net Cash Flows from Investing Activities		(10 200)
Financing Activities		
Loan – Highvale Finance	13 000	
Drawings	(2 400)	
Net Cash Flows from Financing Activities		10 600
Net Increase in Cash		18 300
add expected Bank balance at start (1 May 2027)		7 500
Expected Bank balance at end (31 May 2027)		25 800

- Budgeted net change = \$17 900 – \$10 200 + \$10 600 = **\$18 300 increase**.
- Expected Bank at end = \$7 500 + \$18 300 = **\$25 800**.

Question 4

a.

(i) **Investing**; (ii) **Operating**; (iii) **Financing**; (iv) **Investing**; (v) **Operating**.

Budgeted Cash Flow Statement
(extract) for the year ending 30 June
2027

	\$	\$
Investing Activities		
Purchase of machinery	(28 000)	
Proceeds from sale of vehicle	9 500	
Purchase of fittings	(6 000)	
Net Cash Flows from Investing Activities		(24 500)

Net Cash Flows from Investing = \$9 500 – \$28 000 – \$6 000 = **(\$24 500)**.

- c. Buying a **non-current asset** is an **investing** flow because the asset will be used to generate revenue over **more than one period**, rather than being part of the current period's trading.

Question 5

Budgeted Cash Flow Statement
(extract) for the month ending 30
June 2027

	\$	\$
Financing Activities		
Capital contribution	18 000	
Loan – Ironvale Finance	30 000	
Repayment of loan – Ironvale Finance	(12 000)	
Drawings	(3 600)	
Net Cash Flows from Financing Activities		32 400

Net Cash Flows from Financing = \$18 000 + \$30 000 – \$12 000 – \$3 600 = **\$32 400**.

- b. Budgeted net change = operating \$10 500 + financing \$32 400 = **\$42 900 increase**; expected closing Bank = \$4 800 + \$42 900 = **\$47 700**.
- c. A **capital contribution** is cash the owner plans to put **into** the business (a financing inflow that increases owner's equity), whereas **drawings** are cash the owner plans to take **out** for private use (a financing outflow that decreases owner's equity).

Question 6

- a. Preparing a Budgeted Cash Flow Statement lets Larkfield see its **expected cash position in advance**, so it can plan for any shortfall (or surplus) — for example, by arranging finance or timing purchases — before the month begins. (*Any one valid benefit: planning ahead, better decisions, a benchmark for control, coordination or motivation.*)
- b. Net Cash Flows from Operating = \$41 000 – (\$23 000 + \$9 500 + \$3 100) = \$41 000 – \$35 600 = **\$5 400**. (The \$5 200 depreciation is **not** included.)
- c. The **budgeted GST to be paid** is a planned actual movement of cash out of the Bank, so on the cash basis it belongs in the Budgeted Cash Flow Statement; **depreciation** is an accounting **allocation** of the ovens' cost with **no cash effect**, so it is reported only in the Budgeted Income Statement and is left out of the Budgeted Cash Flow Statement.

Question 7

- (i) **Operating inflow**; (ii) **Operating outflow**; (iii) **Investing outflow**; (iv) **Financing inflow**; (v) **Investing inflow**; (vi) **Financing outflow**; (vii) **Operating outflow**;
(ii) **Financing inflow**.

Question 8

Budgeted Cash Flow Statement for
the month ending 30 September
2026

	\$	\$
Operating Activities		
Cash sales	45 000	
Receipts from Accounts Receivable	27 000	
Payments to Accounts Payable	(34 000)	
Wages	(11 500)	
GST paid	(3 500)	
Interest expense	(1 000)	
Net Cash Flows from Operating Activities		22 000
Investing Activities		
Purchase of forklift	(21 000)	
Proceeds from sale of old vehicle	7 200	
Net Cash Flows from Investing Activities		(13 800)
Financing Activities		
Capital contribution	10 000	
Drawings	(2 800)	
Net Cash Flows from Financing Activities		7 200
Net Increase in Cash		15 400
add expected Bank balance at start (1 September 2026)		8 300
Expected Bank balance at end (30 September 2026)		23 700

Budgeted net change = \$22 000 – \$13 800 + \$7 200 = **\$15 400**; expected Bank at end = \$8 300 + \$15 400 = **\$23 700**.

Question 9

Budgeted Cash Flow Statement for
the month ending 31 October 2026

	\$	\$
Operating Activities		
Cash sales	20 000	
Payments to Accounts Payable	(18 500)	
Wages	(9 000)	
GST paid	(2 300)	
Interest expense	(600)	
Net Cash Flows from Operating Activities		(10 400)

Budgeted Cash Flow Statement for
the month ending 31 October 2026

	\$	\$
Investing Activities		
Purchase of workshop equipment	(14 000)	
Net Cash Flows from Investing Activities		(14 000)
Financing Activities		
Loan – Seabright Finance	6 000	
Drawings	(2 000)	
Net Cash Flows from Financing Activities		4 000
Net Decrease in Cash		(20 400)
add expected Bank balance at start (1 October 2026)		3 200
Expected Bank Overdraft at end (31 October 2026)		(17 200)

Budgeted net change = $(\$10\,400) - \$14\,000 + \$4\,000 = \textbf{(\$20\,400) decrease}$. Adding the expected opening \$3 200 gives (\$17 200): the business is **forecasting an overdrawn Bank account**, so the expected closing balance is reported as an **expected Bank Overdraft of \$17 200**, a current liability. Because the budget reveals this shortfall **before** the month begins, the owner can act now — arranging an overdraft or loan, delaying the equipment purchase, or trimming drawings — instead of being caught short.

Question 10

Budgeted Cash Flow Statement
(extract) for the year ending 30 June
2027

	\$	\$
Operating Activities		
Cash sales	66 000	
Receipts from Accounts Receivable	39 000	
Payments to Accounts Payable	(48 000)	
Wages	(20 000)	
GST paid	(5 400)	
Interest expense	(1 700)	
Net Cash Flows from Operating Activities		29 900

Net Cash Flows from Operating = $(\$66\,000 + \$39\,000) - (\$48\,000 + \$20\,000 + \$5\,400 + \$1\,700) = \$105\,000 - \$75\,100 = \textbf{\$29\,900}$.

Question 11

Budgeted Cash Flow Statement
(extract) for the year ending 30 June
2027

	\$	\$
Investing Activities		
Purchase of excavator	(88 000)	
Proceeds from sale of truck	23 000	
Purchase of screening plant	(14 000)	
Net Cash Flows from Investing Activities		(79 000)

Budgeted Cash Flow Statement
(extract) for the year ending 30 June
2027

\$

\$

Activities

Net Cash Flows from Investing = \$23 000 – \$88 000 – \$14 000 = **(\$79 000)**. A large budgeted investing **outflow** simply means the business **plans to invest heavily in new non-current assets** this year, which is often a sign of planned expansion; budgeting for it in advance lets the owner arrange the finance to cover it, so it is not, on its own, a sign of poor planning.

Question 12

Budgeted Cash Flow Statement
(extract) for the year ending 30 June
2027

\$

\$

Financing Activities

Capital contribution	42 000	
Loan – Parkvale Bank	50 000	
Repayment of loan – Parkvale Bank	(22 000)	
Drawings	(9 500)	
Net Cash Flows from Financing Activities		60 500

Net Cash Flows from Financing = \$42 000 + \$50 000 – \$22 000 – \$9 500 = **\$60 500**.

Question 13

Budgeted Cash Flow Statement for
the year ending 30 June 2027

\$

\$

Operating Activities

Cash sales	252 000	
Receipts from Accounts Receivable	122 000	
Payments to Accounts Payable	(184 000)	
Wages	(74 000)	
GST paid	(22 000)	
Interest expense	(9 800)	
Net Cash Flows from Operating Activities		84 200

Investing Activities

Purchase of bottling plant	(62 000)	
Proceeds from sale of vehicle	19 000	
Net Cash Flows from Investing Activities		(43 000)

Financing Activities

Capital contribution	30 000	
Loan – Vineford Finance	40 000	
Drawings	(29 000)	
Net Cash Flows from Financing Activities		41 000
Net Increase in Cash		82 200

Budgeted Cash Flow Statement for
the year ending 30 June 2027

	\$	\$
add expected Bank balance at start (1 July 2026)		16 000
Expected Bank balance at end (30 June 2027)		98 200

Budgeted net change = \$84 200 – \$43 000 + \$41 000 = **\$82 200**; expected Bank at end = \$16 000 + \$82 200 = **\$98 200**.

Question 14

The Budgeted Cash Flow Statement is prepared on the **cash basis**, so it reports a planned flow only when cash is expected to actually move. The **\$600 GST** on the planned \$6 000 (plus GST) cash purchase is part of the \$6 600 the business expects to **pay out of the Bank**, so it is budgeted as an operating outflow. **Depreciation**, by contrast, is an **allocation** of a non-current asset's cost across its useful life; recording it moves **no cash**, so it is a Budgeted Income Statement expense only and never appears in the Budgeted Cash Flow Statement. A business can therefore budget for a **profit yet still budget for its cash to fall** — for example, if much of its expected revenue is still owed by credit customers, or if it plans to use cash to buy assets or repay loans, plans that reduce cash without reducing profit.

Question 15

Expected opening Bank = expected closing Bank – budgeted net change = \$4 900 – (–\$3 600) = \$4 900 + \$3 600 = **\$8 500**. The reconciliation at the foot of the statement works because **expected opening Bank + budgeted net change in cash = expected closing Bank**: the budgeted net change (here a \$3 600 **decrease**) added to the expected opening balance of \$8 500 gives the \$4 900 expected closing balance, proving that the classified budgeted inflows and outflows fully explain the planned movement in cash.

Question 16

The **loan to be received \$36 000** is a **financing inflow**; the **planned repayment of loan principal \$7 500** is a **financing outflow**; the **budgeted interest \$2 000** is an **operating outflow**.

Budgeted Cash Flow Statement
(extract) for the year ending 30 June
2027

	\$	\$
Financing Activities		
Loan – Fairway Finance	36 000	
Repayment of loan – Fairway Finance	(7 500)	
Net Cash Flows from Financing Activities		28 500

Net Cash Flows from Financing = \$36 000 – \$7 500 = **\$28 500**. The **interest of \$2 000** is **not** included because it is the **cost of servicing** the loan during the period — a day-to-day expense — so it is budgeted as an **operating** outflow, not a financing one.

Question 17

Budgeted Cash Flow Statement for
the month ending 30 November
2026

	\$	\$
Operating Activities		
Cash sales	54 000	
Receipts from Accounts Receivable	20 000	
Payments to Accounts Payable	(39 000)	

Budgeted Cash Flow Statement for
the month ending 30 November
2026

	\$	\$
Wages	(13 000)	
GST paid	(4 300)	
Interest expense	(1 400)	
Net Cash Flows from Operating Activities		16 300
Investing Activities		
Purchase of van	(17 000)	
Net Cash Flows from Investing Activities		(17 000)
Financing Activities		
Repayment of loan – Westgate Finance	(8 500)	
Drawings	(3 200)	
Net Cash Flows from Financing Activities		(11 700)
Net Decrease in Cash		(12 400)
add expected Bank balance at start (1 November 2026)		21 000
Expected Bank balance at end (30 November 2026)		8 600

Budgeted net change = \$16 300 – \$17 000 – \$11 700 = **(\$12 400) decrease**; expected Bank at end = \$21 000 – \$12 400 = **\$8 600**. Although **operating activities are expected to generate \$16 300** of cash, the business plans to spend \$17 000 on a van and pay out \$11 700 in loan repayment and drawings, so overall its cash is budgeted to **fall by \$12 400** — a healthy operating result can still be outweighed by planned investing and financing outflows.

Question 18

Budgeted Cash Flow Statement for
the year ending 30 June 2027

	\$	\$
Operating Activities		
Cash sales	192 000	
Receipts from Accounts Receivable	98 000	
Payments to Accounts Payable	(146 000)	
Wages	(56 000)	
GST paid	(18 000)	
Interest expense	(7 400)	
Net Cash Flows from Operating Activities		62 600
Investing Activities		
Purchase of land improvements	(49 000)	
Proceeds from sale of vehicle	16 000	
Purchase of fittings	(9 500)	
Net Cash Flows from Investing Activities		(42 500)
Financing Activities		

Budgeted Cash Flow Statement for
the year ending 30 June 2027

	\$	\$
Capital contribution	26 000	
Loan – Greenvale Bank	35 000	
Drawings	(23 000)	
Net Cash Flows from Financing Activities		38 000
Net Increase in Cash		58 100
add expected Bank balance at start (1 July 2026)		13 200
Expected Bank balance at end (30 June 2027)		71 300

Budgeted operating cash was $(\$192\,000 + \$98\,000) - (\$146\,000 + \$56\,000 + \$18\,000 + \$7\,400) = \$290\,000 - \$227\,400 = \$62\,600$; investing was $\$16\,000 - \$49\,000 - \$9\,500 = (\$42\,500)$; financing was $\$26\,000 + \$35\,000 - \$23\,000 = \$38\,000$. Budgeted net change = $\$62\,600 - \$42\,500 + \$38\,000 = \mathbf{\$58\,100}$; expected Bank at end = $\$13\,200 + \$58\,100 = \mathbf{\$71\,300}$.

Chapter 17 Budgeting — 17B Cash flows from credit transactions

Theory

A **budget** predicts the cash a business expects to receive and pay in a future period. For a trading business, two of the largest operating flows come from **credit transactions**, and neither produces cash at the moment it is recorded:

- a **credit sale** is recorded straight away (Accounts Receivable is debited, Sales and GST Clearing are credited), but the **cash is not received until the customer pays** — often over more than one month;
- a **credit purchase** is recorded straight away (Inventory and GST Clearing are debited, Accounts Payable is credited), but the **cash is not paid until the business settles with its supplier**.

Budgeting the operating section of a **Budgeted Cash Flow Statement** therefore means translating planned credit sales into **budgeted cash received from Accounts Receivable**, and planned credit purchases into **budgeted cash paid to Accounts Payable**. To do this we need the **timing** of the cash — the pattern in which debts are collected and paid.

Collection and payment patterns. A business estimates, from experience, the proportion of a credit sale it will collect in each month. A typical **collection pattern** might be *40% in the month of the sale and 60% in the following month*. The percentages are applied to the **GST-inclusive** amount of the credit sale, because that is the total the customer owes. A **payment pattern** does the same for credit purchases — the proportion of each purchase paid in the month of purchase and in later months.

Accounts Receivable reconstruction. Every credit sale debits Accounts Receivable with the **GST-inclusive** amount, so the control account — and every figure in its reconstruction — is GST-inclusive. Reconstructing the account isolates the cash collected as the missing figure:

Budgeted cash received from Accounts Receivable = Opening Accounts Receivable + Budgeted credit sales (incl. GST) – Closing Accounts Receivable.

The opening balance is the part of earlier months' sales still owing at the start of the month; the closing balance is the part of this month's (and any earlier) sales still owing at the end of it.

Accounts Payable reconstruction. The mirror image applies to suppliers. Every credit purchase credits Accounts Payable with the GST-inclusive amount, so:

Budgeted cash paid to Accounts Payable = Opening Accounts Payable + Budgeted credit purchases (incl. GST) – Closing Accounts Payable.

Because the reconstruction has four elements (opening, credit total, cash, closing), knowing any three lets you solve for the fourth — so the same relationship also finds a missing **credit sales / purchases** figure or a missing **closing balance** from the budget.

The timing of GST cash flows. The GST on a credit sale is recorded in **GST Clearing** at the moment of the sale, but the *cash* for that GST is not received until the customer pays. GST is collected in the same instalments as the rest of the debt, so **exactly 1/11 of every dollar received** from Accounts Receivable is GST cash. In any single month the *GST received in cash* will differ from the *GST recorded* on that month's credit sales, because the month's receipts mix GST carried over from earlier sales now being collected with only part of the current month's GST. The same lag applies to GST paid: 1/11 of every dollar paid to Accounts Payable is GST cash leaving the Bank. (A common error is to reconstruct the accounts using the *GST-exclusive* sales or purchases figure — always use the GST-inclusive total, because that is what sits in the control account.)

Worked model. Rivermede Supplies budgets credit sales of \$20 000 (plus GST) in March and \$30 000 (plus GST) in April — that is, GST-inclusive amounts of \$22 000 and \$33 000. It expects to collect **40% in the month of sale and 60% in the following month**. Budgeted cash received from Accounts Receivable in April is:

$$40\% \times \$33\,000 + 60\% \times \$22\,000 = \$13\,200 + \$13\,200 = \mathbf{\$26\,400}.$$

At 1 April the only debt outstanding is 60% of March's sales (\$13 200); at 30 April, 60% of April's sales are still owing (\$19 800). The reconstruction confirms the receipt:

Accounts Receivable reconstruction — April		\$
Opening balance (1 Apr) — 60% of March's credit sales still owing		13 200
add Budgeted credit sales for April (incl. GST)		33 000
less Closing balance (30 Apr) — 60% of April's credit sales still owing		(19 800)
Budgeted cash received from Accounts Receivable		26 400

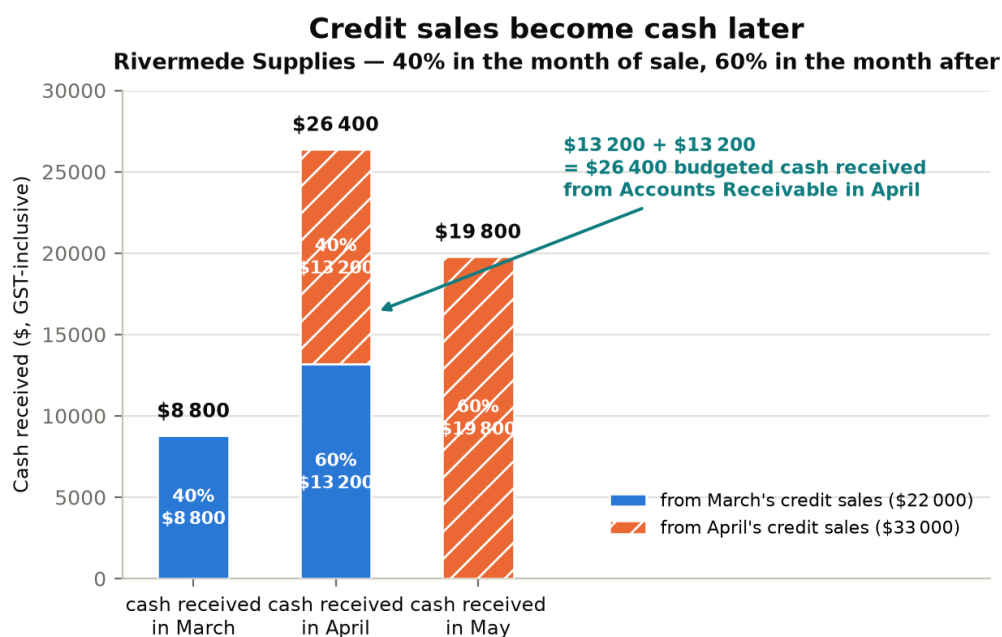
The same result appears when the control account is reconstructed in T-form:

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Apr	Balance	13 200	30 Apr	Bank	26 400
30 Apr	Sales/GST Clearing	33 000	30 Apr	Balance	19 800
		46 200			46 200

Of the \$26 400 received, exactly 1/11 — that is, **\$2 400** — is GST cash, even though the GST *recorded* on April's credit sales alone is \$3 000.

Drawing each month's sales in the month the **cash** arrives, rather than the month of the sale, shows where the two \$13 200 instalments come from:



Every figure is GST-inclusive, because that is what sits in the Accounts Receivable control account — and exactly 1/11 of each dollar received is GST cash.

Rivermede Supplies' credit sales, drawn in the month the cash arrives rather than the month of the sale

April's receipt is two part-payments from two different months: 60% of March's \$22 000 and 40% of April's \$33 000. The same figure explains the reconstruction — the \$13 200 still owing from March **is** April's opening balance, and the \$19 800 spilling over into May **is** its closing balance.

Worked examples (scaffolded)

Example 1 — budgeted cash received from Accounts Receivable (two-month collection pattern)

Meadowvale Trading budgets credit sales of \$40 000 (plus GST) in July and \$50 000 (plus GST) in August. It expects to collect **30% in the month of sale and 70% in the following month**. Calculate the budgeted cash received from Accounts Receivable in August.

Working	Comment
GST-inclusive credit sales: July = $\$40\,000 \times 1.1 = \$44\,000$; August = $\$50\,000 \times 1.1 = \$55\,000$.	The collection pattern is applied to the GST-inclusive total the customer owes, not the sales figure.
August receipts = $30\% \times \$55\,000 + 70\% \times \$44\,000 = \$16\,500 + \$30\,800 = \$47\,300$.	30% of August's own sales, plus the 70% of July's sales collected one month later.
Opening Accounts Receivable (1 Aug) = $70\% \times \$44\,000 = \$30\,800$.	The part of July's credit sales still owing at the start of August.
Closing Accounts Receivable (31 Aug) = $70\% \times \$55\,000 = \$38\,500$.	The 70% of August's sales not yet collected at month end.
Reconstruction: $\$30\,800 + \$55\,000 - \$38\,500 = \$47\,300$.	Opening + credit sales (incl. GST) – closing confirms the receipt independently.

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Aug	Balance	30 800	31 Aug	Bank	47 300
31 Aug	Sales/GST Clearing	55 000	31 Aug	Balance	38 500
		85 800			85 800

Example 2 — budgeted cash paid to Accounts Payable (two-month payment pattern)

Ironbark Hardware budgets credit purchases of inventory of \$25 000 (plus GST) in September and \$35 000 (plus GST) in October. It expects to pay **60% in the month of purchase and 40% in the following month**. Calculate the budgeted cash paid to Accounts Payable in October.

Working	Comment
GST-inclusive credit purchases: September = \$27 500; October = \$38 500.	Accounts Payable is credited with the GST-inclusive amount owed to the supplier.
October payments = $60\% \times \$38\,500 + 40\% \times \$27\,500 = \$23\,100 + \$11\,000 = \$34\,100$.	60% of October's own purchases, plus the 40% of September's purchases paid one month later.
Opening Accounts Payable (1 Oct) = $40\% \times \$27\,500 = \$11\,000$.	September's purchases still unpaid at the start of October.
Closing Accounts Payable (31 Oct) = $40\% \times \$38\,500 = \$15\,400$.	The 40% of October's purchases not yet paid at month end.
Reconstruction: $\$11\,000 + \$38\,500 - \$15\,400 = \$34\,100$.	Opening + credit purchases (incl. GST) – closing confirms the payment.

Accounts Payable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
31 Oct	Bank	34 100	1 Oct	Balance	11 000
31 Oct	Balance	15 400	31 Oct	Inventory/GST Clearing	38 500
		49 500			49 500

Worked examples (unscaffolded)

Example 3 — a three-month collection pattern (roll-forward), and the GST inside the receipt

Kelburn Wholesalers budgets credit sales (plus GST) of \$20 000 in January, \$30 000 in February and \$40 000 in March. Its collection pattern is **50% in the month of sale, 30% in the next month and 20% in the third month**. Calculate the budgeted cash received from Accounts Receivable in March and the GST it contains.

The GST-inclusive credit sales are \$22 000, \$33 000 and \$44 000. March collects 50% of March's sales, 30% of February's and 20% of January's:

$$50\% \times \$44\,000 + 30\% \times \$33\,000 + 20\% \times \$22\,000 = \$22\,000 + \$9\,900 + \$4\,400 = \mathbf{\$36\,300}.$$

At 1 March, still owing are 20% of January's sales (\$4 400) plus the 50% of February's sales not yet collected (\$16 500) — an opening balance of \$20 900. At 31 March, still owing are 20% of February's sales (\$6 600) plus 50% of March's sales (\$22 000) — a closing balance of \$28 600.

Accounts Receivable reconstruction —

March	\$
Opening balance (1 Mar)	20 900
add Budgeted credit sales for March (incl. GST)	44 000
less Closing balance (31 Mar)	(28 600)
Budgeted cash received from Accounts Receivable	36 300

∴ budgeted cash received in March is \$36 300, of which 1/11 — that is, **\$3 300** — is GST cash.

Example 4 — reconstructing to find a missing figure (budgeted credit purchases)

Everton Provisions budgets an opening Accounts Payable of \$8 800 at 1 May and a closing Accounts Payable of \$11 000 at 31 May, and plans to pay \$35 200 to its suppliers during May. Calculate the budgeted credit purchases (including GST) for May, and the GST-exclusive purchases and GST they contain.

With three of the four elements known, the credit purchases are the balancing figure:

$$\text{budgeted credit purchases (incl. GST)} = \text{closing} + \text{cash paid} - \text{opening} = \$11\,000 + \$35\,200 - \$8\,800 = \mathbf{\$37\,400}.$$

Accounts Payable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
31 May	Bank	35 200	1 May	Balance	8 800
31 May	Balance	11 000	31 May	Inventory/GST Clearing	37 400
		46 200			46 200

∴ the GST-inclusive credit purchases are \$37 400, so the GST-exclusive purchases are $\$37\,400 \div 1.1 = \mathbf{\$34\,000}$ and the GST is $\$34\,000 \times 0.1 = \mathbf{\$3\,400}$.

Practice questions — scaffolded

Question 1

Kingsley Distributors budgets credit sales of \$60 000 (plus GST) in August and \$80 000 (plus GST) in September. It expects to collect **25% in the month of sale and 75% in the following month**.

- State the opening balance of Accounts Receivable at 1 September.
- Calculate the budgeted cash received from Accounts Receivable in September.
- Prepare the Accounts Receivable account (reconstruction) for September to confirm your answer to b.

Question 2

Wattlebrook Wholesale budgets credit purchases of inventory of \$45 000 (plus GST) in November and \$55 000 (plus GST) in December. It expects to pay **40% in the month of purchase and 60% in the following month**.

- Calculate the budgeted cash paid to Accounts Payable in December.

- b. State the closing balance of Accounts Payable at 31 December.
- c. Prepare the Accounts Payable account (reconstruction) for December to confirm your answer to a.

Question 3

Fernlea Supplies budgets credit sales of \$50 000 (plus GST) in May and \$70 000 (plus GST) in June, collecting **60% in the month of sale and 40% in the following month.**

- a. Calculate the budgeted cash received from Accounts Receivable in June.
- b. Calculate the GST included in that receipt.
- c. Explain in one or two sentences why the GST received in cash in June differs from the \$7 000 of GST recorded on June's credit sales.

Question 4

Tallowood Traders budgets credit sales (plus GST) of \$30 000 in April, \$40 000 in May and \$50 000 in June. Its collection pattern is **50% in the month of sale, 40% in the next month and 10% in the third month.**

- a. Calculate the opening balance of Accounts Receivable at 1 June.
- b. Calculate the budgeted cash received from Accounts Receivable in June.
- c. Prepare the Accounts Receivable reconstruction for June to confirm your answer to b.

Question 5

Glenross Merchants budgets an opening Accounts Receivable of \$18 700 at 1 July and a closing Accounts Receivable of \$24 200 at 31 July, and plans to receive \$90 200 from its customers during July.

- a. Calculate the budgeted credit sales (including GST) for July.
- b. Calculate the GST-exclusive sales figure and the GST it contains.
- c. Explain in one sentence why the credit sales figure used in the reconstruction includes GST.

Question 6

Blackrock Grocers budgets credit purchases of inventory (plus GST) of \$40 000 in January, \$20 000 in February and \$30 000 in March. Its payment pattern is **50% in the month of purchase, 30% in the next month and 20% in the third month.**

- a. Calculate the opening balance of Accounts Payable at 1 March.
- b. Calculate the budgeted cash paid to Accounts Payable in March.
- c. Prepare the Accounts Payable reconstruction for March to confirm your answer to b.

Practice questions — unscaffolded

Question 7

Marlow Textiles budgets credit sales of \$50 000 (plus GST) in February and \$65 000 (plus GST) in March, collecting **20% in the month of sale and 80% in the following month.** Prepare the Accounts Receivable reconstruction for March and state the budgeted cash received from Accounts Receivable.

Question 8

Cliffhaven Trading budgets credit purchases (plus GST) of \$40 000 in August and \$60 000 in September, paying **35% in the month of purchase and 65% in the following month.** Prepare the Accounts Payable reconstruction for September and state the budgeted cash paid to Accounts Payable.

Question 9

Oakendale Supplies budgets credit sales (plus GST) of \$20 000 in September, \$40 000 in October and \$60 000 in November. Its collection pattern is **40% in the month of sale, 45% in the next month and 15% in the third month**. Calculate the budgeted cash received from Accounts Receivable in November and prepare the reconstruction that confirms it.

Question 10

Cedarbrook Wholesalers budgets credit sales of \$80 000 (plus GST) in June and \$100 000 (plus GST) in July, collecting **50% in the month of sale and 50% in the following month**. Calculate the budgeted cash received from Accounts Receivable in July, state the GST included in that receipt, and explain why it is not equal to the \$10 000 of GST recorded on July's credit sales.

Question 11

Ashford Provisions budgets an opening Accounts Receivable of \$26 400 at 1 May and a closing Accounts Receivable of \$22 000 at 31 May, and plans to receive \$110 000 from customers during May. Using account reconstruction, calculate the budgeted credit sales for May (including GST) and the GST-exclusive amount they contain.

Question 12

Redgum Hardware budgets an opening Accounts Payable of \$15 400 at 1 October, credit purchases of inventory of \$70 000 (plus GST) during October, and a closing Accounts Payable of \$19 800 at 31 October. Prepare the Accounts Payable reconstruction and state the budgeted cash paid to Accounts Payable in October.

Question 13

Willowbank Distributors budgets credit sales (plus GST) of \$40 000 in March, \$50 000 in April and \$60 000 in May, collecting **30% in the month of sale and 70% in the following month**. Calculate the budgeted cash received from Accounts Receivable in **April** and in **May**.

Question 14

Hazelmere Trading budgets credit purchases (plus GST) of \$20 000 in May, \$40 000 in June and \$60 000 in July, paying **55% in the month of purchase and 45% in the following month**. Calculate the budgeted cash paid to Accounts Payable in **June** and in **July**.

Question 15

Bracken & Co budgets, for December, credit sales collected **40% in the month of sale and 60% the next month** (November sales \$50 000 plus GST; December sales \$70 000 plus GST) and credit purchases paid **50% in the month of purchase and 50% the next month** (November purchases \$30 000 plus GST; December purchases \$40 000 plus GST). Calculate the budgeted cash received from Accounts Receivable and the budgeted cash paid to Accounts Payable in December, and the net cash effect of these two items.

Question 16

Explain, with reference to the Accounts Receivable reconstruction, why the budgeted cash received from Accounts Receivable in a month is usually **different** from that month's budgeted credit sales.

Question 17

Stanmore Traders budgets credit sales of \$60 000 (plus GST) in February and \$90 000 (plus GST) in March, collecting **40% in the month of sale and 60% in the following month**. The business records \$9 000 of GST on its March credit sales but budgets to receive only \$7 200 of GST in cash during March. Explain why the GST recorded and the GST received in cash differ, referring to the timing of cash flows and the GST Clearing account.

Question 18

Ravenswood Supplies budgets credit sales (including GST) of \$44 000 in June and \$66 000 in July. It is choosing between two customer arrangements: **Pattern A** — standard terms, collecting 100% of each month's sales in the month *after* the sale; and **Pattern B** — a prompt-payment arrangement expected to collect 60% in the month of sale

and 40% in the following month. Model the budgeted cash received from Accounts Receivable in **July** under each pattern, and discuss one implication for the business's budgeted liquidity.

Answers

1.
 - a. \$49 500 b. \$71 500 c. reconstruction confirms \$71 500 (closing \$66 000)
2.
 - a. \$53 900 b. \$36 300 c. reconstruction confirms \$53 900
3.
 - a. \$68 200 b. \$6 200 c. see solutions
4.
 - a. \$25 300 b. \$48 400 c. reconstruction confirms \$48 400
5.
 - a. \$95 700 b. ex-GST \$87 000, GST \$8 700 c. see solutions
6.
 - a. \$19 800 b. \$31 900 c. reconstruction confirms \$31 900
7. Budgeted cash received \$58 300 (closing Accounts Receivable \$57 200)
8. Budgeted cash paid \$51 700 (closing Accounts Payable \$42 900)
9. Budgeted cash received \$49 500 (opening \$29 700; closing \$46 200)
10. Budgeted cash received \$99 000; GST included \$9 000
11. Credit sales (incl. GST) \$105 600; GST-exclusive \$96 000 (GST \$9 600)
12. Budgeted cash paid \$72 600
13. April \$47 300; May \$58 300
14. June \$34 100; July \$56 100
15. Receipts \$63 800; payments \$38 500; net inflow \$25 300
16. See solutions
17. GST received in cash \$7 200 vs GST recorded \$9 000 — see solutions
18. Pattern A \$44 000; Pattern B \$57 200 (\$13 200 more under B) — see solutions

Fully-worked solutions

Question 1

GST-inclusive credit sales: August \$66 000; September \$88 000.

- a. Opening Accounts Receivable (1 Sept) = $75\% \times \$66\,000 = \$49\,500$.
- b. September receipts = $25\% \times \$88\,000 + 75\% \times \$66\,000 = \$22\,000 + \$49\,500 = \$71\,500$.
- c. Closing Accounts Receivable (30 Sept) = $75\% \times \$88\,000 = \$66\,000$.

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Sep	Balance	49 500	30 Sep	Bank	71 500
30 Sep	Sales/GST Clearing	88 000	30 Sep	Balance	66 000
		137 500			137 500

Reconstruction: $\$49\,500 + \$88\,000 - \$66\,000 = \$71\,500$. ✓

Question 2

GST-inclusive credit purchases: November \$49 500; December \$60 500.

- a. December payments = $40\% \times \$60\,500 + 60\% \times \$49\,500 = \$24\,200 + \$29\,700 = \$53\,900$.
- b. Closing Accounts Payable (31 Dec) = $60\% \times \$60\,500 = \$36\,300$.

Accounts Payable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
31 Dec	Bank	53 900	1 Dec	Balance	29 700
31 Dec	Balance	36 300	31 Dec	Inventory/GST Clearing	60 500
		90 200			90 200

Reconstruction: opening $60\% \times \$49\,500 = \$29\,700$; $\$29\,700 + \$60\,500 - \$36\,300 = \mathbf{\$53\,900}$. ✓

Question 3

GST-inclusive credit sales: May \$55 000; June \$77 000.

- June receipts = $60\% \times \$77\,000 + 40\% \times \$55\,000 = \$46\,200 + \$22\,000 = \mathbf{\$68\,200}$.
- GST included = $\$68\,200 \div 11 = \mathbf{\$6\,200}$.
- The \$7 000 is the GST *recorded* on all of June's credit sales, but only 60% of June's sales are collected in June; the rest of June's GST is not received until July. At the same time, June's receipt also contains the GST on the 40% of May's sales collected in June. The GST cash that actually moves in June (\$6 200) therefore reflects the mix of debts *collected* in the month, not the GST *recorded* on the month's sales.

Question 4

GST-inclusive credit sales: April \$33 000; May \$44 000; June \$55 000.

- Opening Accounts Receivable (1 June) = 10% of April's sales still owing + 50% of May's sales still owing = $10\% \times \$33\,000 + 50\% \times \$44\,000 = \$3\,300 + \$22\,000 = \mathbf{\$25\,300}$.
- June receipts = $50\% \times \$55\,000 + 40\% \times \$44\,000 + 10\% \times \$33\,000 = \$27\,500 + \$17\,600 + \$3\,300 = \mathbf{\$48\,400}$.
- Closing Accounts Receivable (30 June) = $10\% \times \$44\,000 + 50\% \times \$55\,000 = \$4\,400 + \$27\,500 = \$31\,900$.

Accounts Receivable reconstruction —

June	\$
Opening balance (1 Jun)	25 300
add Budgeted credit sales for June (incl. GST)	55 000
less Closing balance (30 Jun)	(31 900)
Budgeted cash received from Accounts Receivable	48 400

Question 5

- Budgeted credit sales (incl. GST) = closing + cash received – opening = $\$24\,200 + \$90\,200 - \$18\,700 = \mathbf{\$95\,700}$.
- GST-exclusive sales = $\$95\,700 \div 1.1 = \mathbf{\$87\,000}$; GST = $\$87\,000 \times 0.1 = \mathbf{\$8\,700}$.
- Accounts Receivable is debited with the full amount the customer owes, which includes the 10% GST, so the credit sales figure that reconstructs the account must also be GST-inclusive.

Question 6

GST-inclusive credit purchases: January \$44 000; February \$22 000; March \$33 000.

- Opening Accounts Payable (1 March) = 20% of January's purchases still unpaid + 50% of February's purchases still unpaid = $20\% \times \$44\,000 + 50\% \times \$22\,000 = \$8\,800 + \$11\,000 = \mathbf{\$19\,800}$.
- March payments = $50\% \times \$33\,000 + 30\% \times \$22\,000 + 20\% \times \$44\,000 = \$16\,500 + \$6\,600 + \$8\,800 = \mathbf{\$31\,900}$.
- Closing Accounts Payable (31 March) = $20\% \times \$22\,000 + 50\% \times \$33\,000 = \$4\,400 + \$16\,500 = \$20\,900$.

Accounts Payable reconstruction —
March

	\$
Opening balance (1 Mar)	19 800
add Budgeted credit purchases for March (incl. GST)	33 000
less Closing balance (31 Mar)	(20 900)
Budgeted cash paid to Accounts Payable	31 900

Question 7

GST-inclusive credit sales: February \$55 000; March \$71 500.

March receipts = $20\% \times \$71\,500 + 80\% \times \$55\,000 = \$14\,300 + \$44\,000 = \mathbf{\$58\,300}$.

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Mar	Balance	44 000	31 Mar	Bank	58 300
31 Mar	Sales/GST Clearing	71 500	31 Mar	Balance	57 200
		115 500			115 500

Opening = $80\% \times \$55\,000 = \$44\,000$; closing = $80\% \times \$71\,500 = \$57\,200$; reconstruction $\$44\,000 + \$71\,500 - \$57\,200 = \mathbf{\$58\,300}$. ✓

Question 8

GST-inclusive credit purchases: August \$44 000; September \$66 000.

September payments = $35\% \times \$66\,000 + 65\% \times \$44\,000 = \$23\,100 + \$28\,600 = \mathbf{\$51\,700}$.

Accounts Payable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
30 Sep	Bank	51 700	1 Sep	Balance	28 600
30 Sep	Balance	42 900	30 Sep	Inventory/GST Clearing	66 000
		94 600			94 600

Opening = $65\% \times \$44\,000 = \$28\,600$; closing = $65\% \times \$66\,000 = \$42\,900$; reconstruction $\$28\,600 + \$66\,000 - \$42\,900 = \mathbf{\$51\,700}$. ✓

Question 9

GST-inclusive credit sales: September \$22 000; October \$44 000; November \$66 000.

November receipts = $40\% \times \$66\,000 + 45\% \times \$44\,000 + 15\% \times \$22\,000 = \$26\,400 + \$19\,800 + \$3\,300 = \mathbf{\$49\,500}$.

Opening Accounts Receivable (1 Nov) = $15\% \times \$22\,000 + 60\% \times \$44\,000 = \$3\,300 + \$26\,400 = \$29\,700$. Closing Accounts Receivable (30 Nov) = $15\% \times \$44\,000 + 60\% \times \$66\,000 = \$6\,600 + \$39\,600 = \$46\,200$.

Accounts Receivable reconstruction —
November

	\$
Opening balance (1 Nov)	29 700
add Budgeted credit sales for November (incl. GST)	66 000

Accounts Receivable reconstruction —
November

	\$
less Closing balance (30 Nov)	(46 200)
Budgeted cash received from Accounts Receivable	49 500

Question 10

GST-inclusive credit sales: June \$88 000; July \$110 000.

July receipts = $50\% \times \$110\,000 + 50\% \times \$88\,000 = \$55\,000 + \$44\,000 = \$99\,000$.

GST included = $\$99\,000 \div 11 = \$9\,000$.

Only 50% of July's sales are collected in July, so only half of July's \$10 000 GST (\$5 000) is received this month; the other \$4 000 of the July receipt's GST comes from collecting 50% of June's sales. The GST cash that moves in July (\$9 000) reflects the debts *collected* in July, not the GST *recorded* on July's sales (\$10 000).

Question 11

Budgeted credit sales (incl. GST) = closing + cash received – opening = $\$22\,000 + \$110\,000 - \$26\,400 = \$105\,600$.

GST-exclusive sales = $\$105\,600 \div 1.1 = \$96\,000$; GST = $\$96\,000 \times 0.1 = \$9\,600$.

Question 12

GST-inclusive credit purchases = $\$70\,000 \times 1.1 = \$77\,000$.

Budgeted cash paid = opening + credit purchases (incl. GST) – closing = $\$15\,400 + \$77\,000 - \$19\,800 = \$72\,600$.

Accounts Payable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
31 Oct	Bank	72 600	1 Oct	Balance	15 400
31 Oct	Balance	19 800	31 Oct	Inventory/GST Clearing	77 000
		92 400			92 400

Question 13

GST-inclusive credit sales: March \$44 000; April \$55 000; May \$66 000.

April receipts = $30\% \times \$55\,000 + 70\% \times \$44\,000 = \$16\,500 + \$30\,800 = \$47\,300$.

May receipts = $30\% \times \$66\,000 + 70\% \times \$55\,000 = \$19\,800 + \$38\,500 = \$58\,300$.

Accounts Receivable reconstruction	April \$	May \$
Opening balance	30 800	38 500
add Budgeted credit sales (incl. GST)	55 000	66 000
less Closing balance	(38 500)	(46 200)
Budgeted cash received from Accounts Receivable	47 300	58 300

Question 14

GST-inclusive credit purchases: May \$22 000; June \$44 000; July \$66 000.

June payments = $55\% \times \$44\,000 + 45\% \times \$22\,000 = \$24\,200 + \$9\,900 = \$34\,100$.

July payments = $55\% \times \$66\,000 + 45\% \times \$44\,000 = \$36\,300 + \$19\,800 = \$56\,100$.

Accounts Payable
reconstruction

	June \$	July \$
Opening balance	9 900	19 800
add Budgeted credit purchases (incl. GST)	44 000	66 000
less Closing balance	(19 800)	(29 700)
Budgeted cash paid to Accounts Payable	34 100	56 100

Question 15

GST-inclusive credit sales: November \$55 000; December \$77 000. GST-inclusive credit purchases: November \$33 000; December \$44 000.

Budgeted cash received (Dec) = $40\% \times \$77\,000 + 60\% \times \$55\,000 = \$30\,800 + \$33\,000 = \$63\,800$.

Budgeted cash paid (Dec) = $50\% \times \$44\,000 + 50\% \times \$33\,000 = \$22\,000 + \$16\,500 = \$38\,500$.

Net cash effect = $\$63\,800 - \$38\,500 = \$25\,300$ **net inflow** from these two items. This is the combined contribution of credit customers and suppliers to December's operating cash flow in the Budgeted Cash Flow Statement.

Question 16

The reconstruction shows that **budgeted cash received = opening Accounts Receivable + budgeted credit sales (incl. GST) – closing Accounts Receivable**. The receipt equals the credit sales figure only if the opening and closing balances are the same *and* GST is ignored — which is rarely the case. Under a collection pattern, part of the month's credit sales is still owing at the end of the month (raising the closing balance), while some of the previous month's sales are collected during the month (the opening balance). The cash received therefore reflects the debts actually *collected* — a mix drawn from several months — plus the GST embedded in them, rather than the sales *made* in the one month. Only when collections exactly replace the new credit sales, leaving the balance unchanged, would the cash received equal the month's credit sales — and even then it would equal the **GST-inclusive** total, not the sales figure reported in the Budgeted Income Statement.

Question 17

GST-inclusive credit sales: February \$66 000; March \$99 000. March receipts = $40\% \times \$99\,000 + 60\% \times \$66\,000 = \$39\,600 + \$39\,600 = \$79\,200$, of which the GST is $\$79\,200 \div 11 = \$7\,200$.

The \$9 000 is the GST **recorded** in the GST Clearing account at the time March's credit sales were made — it increases the GST liability as soon as the sales are recognised, regardless of when the cash arrives. The \$7 200 is the GST **received in cash** in March. They differ because of the **timing** of the cash flows: only 40% of March's sales (and their GST) are collected in March — \$3 600 of the \$9 000 — so the remaining \$5 400 of March's GST is still owing at month end, while the March receipt also brings in \$3 600 of GST on the 60% of February's sales collected during March. The amount owing to the ATO builds up in GST Clearing as the sales are **recorded**, but the cash for that GST flows in only as the receivables are collected — so in any single month the GST recorded and the GST received in cash rarely match.

Question 18

Pattern A (100% collected the month after sale): July collections come entirely from June's sales, so July receipts = $100\% \times \$44\,000 = \$44\,000$.

Pattern B (60% in the month of sale, 40% the next): July receipts = $60\% \times \$66\,000 + 40\% \times \$44\,000 = \$39\,600 + \$17\,600 = \$57\,200$.

Pattern B brings in **\$13 200 more cash in July** because a large share of July's own (larger) sales is collected in the same month rather than waiting a month. For a business budgeting its liquidity, faster collection lifts the expected

closing Bank balance sooner, easing the timing of payments to suppliers, wages and the ATO and reducing any expected reliance on an overdraft. The trade-off is that prompt-payment arrangements usually have to be *earned* — for example by offering customers a discount for early settlement — so the improved cash timing under Pattern B may come at the cost of lower total receipts, a judgement the business must weigh when preparing the budget.

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

Theory

A **budget** is a formal plan, expressed in dollars, of what a business **expects** to happen in a future period. Having planned its cash flows in a **Budgeted Cash Flow Statement**, a business also plans its **profit** and its **financial position** by preparing a **Budgeted Income Statement** and a **Budgeted Balance Sheet**. Together the three reports are the **budgeted (or pro-forma) reports**: they have exactly the same structure as the actual reports, but every figure is an **expected** amount rather than a recorded one.

Because a budget looks **forward**, its titles use the word *ending* (or *as at* a future date):

- **Budgeted Income Statement for the [period] ending [date]** — for example, “for the year ending 30 June 2027”.
- **Budgeted Balance Sheet as at [date]** — the expected position at the **end** of the budget period.

The Budgeted Income Statement. This report sets out the **expected revenues** and **expected expenses** of the period to arrive at a **Budgeted Net Profit**. It is prepared on the **accrual basis**, so it includes **every** expected expense of the period — including **non-cash expenses** such as **Depreciation** and **Bad debts** — whether or not that expense involves a cash payment in the period. This is the key difference from the Budgeted Cash Flow Statement:

- **Depreciation** is a budgeted **expense** (it reduces Budgeted Net Profit) but is **never** a cash flow, so it appears in the Budgeted Income Statement but **not** in the Budgeted Cash Flow Statement.
- **Credit sales** are budgeted **revenue** in full when earned, even though only part may be **collected** in cash during the period; **loan repayments**, **drawings** and the **purchase of a non-current asset** are cash outflows but are **not expenses**, so they change the budgeted bank without changing budgeted profit.

The layout mirrors the Income Statement of Chapter 10: **Net Sales** (Sales – Sales Returns), *less* **Cost of Goods Sold** (Cost of Sales, plus any cost of buying inventory that is kept in its own account, such as **Cartage Inwards**), to give **Gross Profit**; *add* **other revenue** (e.g. **Discount Revenue**); *less* the **Expenses** of the period, to give **Budgeted Net Profit**. A cost such as cartage inwards is kept in its own account precisely because it **cannot be allocated to individual units** of inventory on a logical basis — that makes it a **period cost**, reported inside Cost of Goods Sold. A getting-ready cost that **can** be allocated per unit is a **product cost**: it is added to **Inventory**, so it reaches the report inside **Cost of Sales** and is never shown on a line of its own.

The Budgeted Balance Sheet. This report sets out the **expected assets, liabilities and owner’s equity** of the business **as at the budget date** — the end of the budget period. It is a **classified** report (Current Assets, Non-Current Assets, Current Liabilities, Non-Current Liabilities, Owner’s Equity) and, like every Balance Sheet, it must **balance**:

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

The Budgeted Balance Sheet is the point at which the three reports **integrate**:

- the **Budgeted Net Profit** from the Budgeted Income Statement is added to the owner’s **Capital** (less **Drawings**) to give the budgeted closing Capital; and
- the **budgeted closing Bank** from the Budgeted Cash Flow Statement becomes the **Bank** figure in the Current Assets.

Account reconstruction. The other closing figures the Budgeted Balance Sheet needs — closing **Inventory**, **Accounts Receivable**, **Accounts Payable**, **Accumulated Depreciation** — are rarely given directly. They are found by **reconstructing the ledger account**: start with the **opening balance**, add the budgeted **increases**, subtract the budgeted **decreases**, and the missing figure is the **closing balance** (or, if the closing balance is known, an unknown flow can be found the same way):

$$\text{Closing balance} = \text{Opening balance} + \text{increases} - \text{decreases}$$

Account	Opening	add (increases)	less (decreases)	= Closing
Inventory	opening inventory	budgeted purchases	Cost of Sales (and any inventory	closing inventory

Account	Opening	add (increases)	less (decreases)	= Closing
Accounts Receivable	opening AR	credit sales including GST	drawings) budgeted receipts from AR	closing AR
Accounts Payable	opening AP	credit purchases including GST	budgeted payments to AP (and discount revenue)	closing AP
Accumulated Depreciation	opening accum. dep.	budgeted depreciation	—	closing accum. dep.
Capital	opening capital	Budgeted Net Profit	drawings	closing capital

Note the **GST**: Accounts Receivable is increased by credit sales **plus 10% GST**, because the debtor is charged the GST-inclusive price; Accounts Payable is increased by credit purchases **plus 10% GST**. The **Accumulated Depreciation** account grows by the budgeted depreciation, and the asset's **carrying amount** (cost – accumulated depreciation) is what is reported in Non-Current Assets.

Worked model. Brightwater Supplies is planning the year ending 30 June 2027. At 1 July 2026 its ledger shows: Bank \$8 000, Accounts Receivable \$22 000, Inventory \$30 000, Equipment \$60 000, Accumulated Depreciation – Equipment \$18 000, Accounts Payable \$15 000, GST Clearing \$2 000 (a liability), Loan – Delta Bank \$20 000 and Capital \$65 000. For the year it budgets: cash sales \$40 000 and credit sales \$80 000 (both plus GST); Cost of Sales \$66 000; credit purchases of inventory \$70 000 (plus GST); receipts from accounts receivable \$82 000; payments to accounts payable \$74 000; Wages \$22 000; Rent \$9 000 and Advertising \$4 000 (both plus GST); Interest \$2 000; Depreciation \$6 000; drawings \$5 000; and a loan repayment of \$4 000.

Budgeted Income Statement. Net Sales = \$40 000 + \$80 000 = \$120 000; Gross Profit = \$120 000 – \$66 000 = \$54 000; Expenses = \$22 000 + \$9 000 + \$4 000 + \$2 000 + \$6 000 = \$43 000; **Budgeted Net Profit = \$11 000.**

Budgeted Income
Statement for the year
ending 30 June 2027

	\$	\$
Revenue		
Sales (cash \$40 000 + credit \$80 000)		120 000
Net Sales		120 000
less Cost of Sales		66 000
Gross Profit		54 000
less Expenses		
Wages	22 000	
Rent expense	9 000	
Advertising	4 000	
Interest expense	2 000	
Depreciation – Equipment	6 000	
Total Expenses		43 000
Budgeted Net Profit		11 000

Reconstructions. Each closing figure is found from opening + increases – decreases:

- **Inventory** = \$30 000 + \$70 000 – \$66 000 = **\$34 000.**
- **Accounts Receivable** = \$22 000 + \$88 000 (credit sales \$80 000 + GST \$8 000) – \$82 000 = **\$28 000.** As a reconstructed ledger account:

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Jul	Balance	22 000		Bank (receipts)	82 000
	Sales / GST	88 000	30 Jun	Balance c/d	28 000
	Clearing				
		110 000			110 000

- **Accounts Payable** = \$15 000 + \$77 000 (purchases \$70 000 + GST \$7 000) – \$74 000 = **\$18 000**.
- **Accumulated Depreciation** = \$18 000 + \$6 000 = **\$24 000**, so the Equipment's carrying amount is \$60 000 – \$24 000 = **\$36 000**.
- **GST Clearing** (a liability) = \$2 000 + GST collected (\$4 000 + \$8 000) – GST paid (\$7 000 on purchases + \$900 on rent + \$400 on advertising) = **\$5 700**.
- **Capital** = \$65 000 + Budgeted Net Profit \$11 000 – Drawings \$5 000 = **\$71 000**.
- **Loan** = \$20 000 – \$4 000 = **\$16 000**.

Budgeted Cash Flow Statement (summary). The budgeted receipts and payments give the closing Bank that the Budgeted Balance Sheet needs:

Budgeted Cash Flow Statement for
the year ending 30 June 2027

	\$	\$
Operating activities		
Receipts from cash sales (incl. GST)	44 000	
Receipts from Accounts Receivable	82 000	
Payments to Accounts Payable	(74 000)	
Payments for Wages	(22 000)	
Payments for Rent (incl. GST)	(9 900)	
Payments for Advertising (incl. GST)	(4 400)	
Payments for Interest	(2 000)	
Net cash from Operating activities		13 700
Financing activities		
Loan repayment	(4 000)	
Drawings	(5 000)	
Net cash from Financing activities		(9 000)
Budgeted increase in cash		4 700
add Bank balance at 1 July 2026		8 000
Budgeted Bank balance at 30 June 2027		12 700

Budgeted Balance Sheet. Every closing figure now flows into the classified report, which balances:

Budgeted Balance Sheet of Brightwater Supplies as at 30 June 2027

	\$	\$
Current Assets		
Bank	12 700	
Accounts Receivable	28 000	
Inventory	34 000	74 700
Non-Current Assets		
Equipment	60 000	
less Accumulated	(24 000)	36 000

	\$	\$
Depreciation		
Total Assets		110 700
Current Liabilities		
Accounts Payable	18 000	
GST Clearing	5 700	23 700
Non-Current Liabilities		
Loan – Delta Bank		16 000
Total Liabilities		39 700
Owner's Equity		
Capital	65 000	
add Budgeted Net Profit	11 000	
less Drawings	(5 000)	71 000
Total Liabilities and Owner's Equity		110 700

Total Assets (\$110 700) equal Total Liabilities plus Owner's Equity (\$39 700 + \$71 000), so the budgeted report balances — as it must, because it is built on double entry.

Worked examples (scaffolded)

Example 1 — preparing a Budgeted Income Statement (with non-cash expenses)

Kingfisher Traders is planning the year ending 30 June 2027. It budgets: Sales \$150 000; Sales Returns \$4 000; Cost of Sales \$82 000; Discount Revenue \$2 000; Wages \$26 000; Rent \$10 000; Advertising \$5 000; Interest \$3 000; Depreciation – Equipment \$7 000; Bad debts \$1 000. Prepare a Budgeted Income Statement and state the Budgeted Net Profit.

Working	Comment
Net Sales = Sales \$150 000 – Sales Returns \$4 000 = \$146 000.	The report opens with the revenue expected after returns.
Gross Profit = \$146 000 – Cost of Sales \$82 000 = \$64 000.	Cost of Sales is the only cost of goods sold here (no separately-recorded Cartage Inwards).
add Discount Revenue \$2 000 → running total \$66 000.	Revenue expected other than from selling inventory.
Expenses = \$26 000 + \$10 000 + \$5 000 + \$3 000 + \$7 000 + \$1 000 = \$52 000.	Depreciation and Bad debts are included even though they are non-cash — the budget is on the accrual basis.
Budgeted Net Profit = \$66 000 – \$52 000 = \$14 000.	Every expected expense of the period is deducted.

Budgeted Income Statement for the year ending 30 June 2027	\$	\$
Revenue		
Sales	150 000	
less Sales Returns	4 000	
Net Sales		146 000
less Cost of Sales		82 000
Gross Profit		64 000
add Discount Revenue		2 000
		66 000

Budgeted Income Statement for the year ending 30 June 2027	\$	\$
less Expenses		
Wages	26 000	
Rent expense	10 000	
Advertising	5 000	
Interest expense	3 000	
Depreciation – Equipment	7 000	
Bad debts	1 000	
Total Expenses		52 000
Budgeted Net Profit		14 000

Example 2 — reconstructing the budget figures and preparing a Budgeted Balance Sheet

Rosewood Trading is planning the year ending 30 June 2027. At 1 July 2026: Bank \$6 000; Accounts Receivable \$18 000; Inventory \$24 000; Equipment \$50 000; Accumulated Depreciation – Equipment \$15 000; Accounts Payable \$12 000; GST Clearing \$2 000; Loan – Riverside Bank \$25 000; Capital \$44 000. For the year it budgets: cash sales \$50 000 (plus GST \$5 000) and credit sales \$70 000 (plus GST \$7 000); receipts from accounts receivable \$74 000; credit purchases of inventory \$80 000 (plus GST \$8 000); Cost of Sales \$66 000; payments to accounts payable \$82 000; Wages \$24 000; Rent \$8 000 and Advertising \$3 000 (both plus GST); Interest \$2 500; Depreciation \$5 000 — giving a Budgeted Net Profit of \$11 500; drawings \$6 000; and a loan repayment of \$5 000. The budgeted closing Bank (from the cash budget) is \$3 400. Reconstruct the closing balances and prepare the Budgeted Balance Sheet as at 30 June 2027.

Working	Comment
Inventory = \$24 000 + purchases \$80 000 – Cost of Sales \$66 000 = \$38 000 .	Opening + purchases in, Cost of Sales out.
Accounts Receivable = \$18 000 + credit sales incl. GST \$77 000 – receipts \$74 000 = \$21 000 .	The debtor is charged the GST-inclusive \$77 000, so that is the increase.
Accounts Payable = \$12 000 + purchases incl. GST \$88 000 – payments \$82 000 = \$18 000 .	Purchases enter Accounts Payable at the GST-inclusive \$88 000.
Accumulated Depreciation = \$15 000 + \$5 000 = \$20 000 ; carrying amount = \$50 000 – \$20 000 = \$30 000 .	The contra account grows; the asset is reported at its carrying amount.
GST Clearing = \$2 000 + GST collected (\$5 000 on cash sales + \$7 000 on credit sales) – GST paid (\$8 000 on purchases + \$800 on rent + \$300 on advertising) = \$4 900 .	A budgeted current liability owed to the ATO.
Capital = \$44 000 + Net Profit \$11 500 – Drawings \$6 000 = \$49 500 ; Loan = \$25 000 – \$5 000 = \$20 000 .	Profit lifts Capital, drawings reduce it; the repayment cuts the loan.

The reconstructed Accounts Receivable and Accounts Payable accounts confirm the closing balances:

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
1 Jul	Balance	18 000		Bank (receipts)	74 000
	Sales / GST Clearing	77 000	30 Jun	Balance c/d	21 000
		95 000			95 000

Accounts Payable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
	Bank (payments)	82 000	1 Jul	Balance	12 000
30 Jun	Balance c/d	18 000		Inventory / GST Clearing	88 000
		100 000			100 000

Budgeted Balance Sheet of Rosewood Trading as at 30 June 2027

	\$	\$
Current Assets		
Bank	3 400	
Accounts Receivable	21 000	
Inventory	38 000	62 400
Non-Current Assets		
Equipment	50 000	
less Accumulated Depreciation	(20 000)	30 000
Total Assets		92 400
Current Liabilities		
Accounts Payable	18 000	
GST Clearing	4 900	22 900
Non-Current Liabilities		
Loan – Riverside Bank		20 000
Total Liabilities		42 900
Owner's Equity		
Capital	44 000	
add Budgeted Net Profit	11 500	
less Drawings	(6 000)	49 500
Total Liabilities and Owner's Equity		92 400

Worked examples (unscaffolded)

Example 3 — reconstructing a budgeted cash flow

Tanglewood Homewares is planning a period in which it budgets credit sales of \$60 000 (plus GST) and a closing Accounts Receivable balance of \$19 000. The opening Accounts Receivable balance is \$16 000. Calculate the budgeted receipts from accounts receivable.

The debtors are charged the GST-inclusive price, so Accounts Receivable is increased by \$60 000 + GST \$6 000 = \$66 000. Reconstructing the account, receipts are the missing decrease:

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
Start	Balance	16 000		Bank (receipts)	63 000
	Sales / GST Clearing	66 000	End	Balance c/d	19 000
		82 000			82 000

Receipts = opening \$16 000 + credit sales incl. GST \$66 000 – closing \$19 000.

∴ the budgeted receipts from accounts receivable are **\$63 000**.

Example 4 — an integrated budget: Budgeted Income Statement and Budgeted Balance Sheet

Silverbrook Cycles is planning the year ending 30 June 2027. At 1 July 2026: Bank \$5 000; Accounts Receivable \$14 000; Inventory \$20 000; Equipment \$40 000; Accumulated Depreciation \$10 000; Accounts Payable \$9 000; GST Clearing \$1 000; Loan – Summit Bank \$15 000; Capital \$44 000. For the year it budgets: cash sales \$30 000 and credit sales \$60 000 (both plus GST); Cost of Sales \$54 000; credit purchases \$58 000 (plus GST); receipts from accounts receivable \$62 000; payments to accounts payable \$60 000; Wages \$16 000; Rent \$7 000 and Advertising \$2 000 (both plus GST); Interest \$1 500; Depreciation \$4 000; drawings \$5 000; and a loan repayment of \$3 000. Prepare the Budgeted Income Statement and the Budgeted Balance Sheet.

Net Sales are $\$30\,000 + \$60\,000 = \$90\,000$ and Gross Profit is $\$90\,000 - \$54\,000 = \$36\,000$. Expenses total $\$16\,000 + \$7\,000 + \$2\,000 + \$1\,500 + \$4\,000 = \$30\,500$, so Budgeted Net Profit is $\$5\,500$. Reconstructing: Inventory = $\$20\,000 + \$58\,000 - \$54\,000 = \$24\,000$; Accounts Receivable = $\$14\,000 + \$66\,000 - \$62\,000 = \$18\,000$; Accounts Payable = $\$9\,000 + \$63\,800 - \$60\,000 = \$12\,800$; Accumulated Depreciation = $\$14\,000$ (carrying amount $\$26\,000$); GST Clearing = $\$1\,000 + \$9\,000 - \$6\,700 = \$3\,300$; Capital = $\$44\,000 + \$5\,500 - \$5\,000 = \$44\,500$; Loan = $\$12\,000$; and the budgeted Bank is $\$5\,000 + \text{receipts } (\$33\,000 + \$62\,000) - \text{payments } (\$60\,000 + \$16\,000 + \$7\,700 + \$2\,200 + \$1\,500 + \$5\,000 + \$3\,000) = \$4\,600$.

Budgeted Income

Statement for the year
ending 30 June 2027

	\$	\$
Revenue		
Sales (cash \$30 000 + credit \$60 000)		90 000
Net Sales		90 000
less Cost of Sales		54 000
Gross Profit		36 000
less Expenses		
Wages	16 000	
Rent expense	7 000	
Advertising	2 000	
Interest expense	1 500	
Depreciation	4 000	
Total Expenses		30 500
Budgeted Net Profit		5 500

Budgeted Balance Sheet of Silverbrook Cycles as at 30 June 2027

	\$	\$
Current Assets		
Bank	4 600	
Accounts Receivable	18 000	
Inventory	24 000	46 600
Non-Current Assets		
Equipment	40 000	
less Accumulated Depreciation	(14 000)	26 000
Total Assets		72 600
Current Liabilities		

	\$	\$
Accounts Payable	12 800	
GST Clearing	3 300	16 100
Non-Current Liabilities		
Loan – Summit Bank		12 000
Total Liabilities		28 100
Owner's Equity		
Capital	44 000	
add Budgeted Net Profit	5 500	
less Drawings	(5 000)	44 500
Total Liabilities and Owner's Equity		72 600

∴ the Budgeted Balance Sheet balances: Total Assets of \$72 600 equal Total Liabilities \$28 100 plus Owner's Equity \$44 500.

Practice questions — scaffolded

Question 1

Maplewood Supplies is planning the year ending 30 June 2027. It budgets: Sales \$130 000; Sales Returns \$3 000; Cost of Sales \$70 000; Discount Revenue \$1 000; Wages \$24 000; Rent \$9 000; Advertising \$4 000; Interest \$2 000; Depreciation – Equipment \$5 000.

- Calculate the budgeted Net Sales.
- Calculate the budgeted Gross Profit.
- Prepare the Budgeted Income Statement for the year ending 30 June 2027 and state the Budgeted Net Profit.

Question 2

Brookvale Traders expects the following balances as at 30 June 2027: Bank \$9 000; Accounts Receivable \$24 000; Inventory \$35 000; Equipment \$55 000; Accumulated Depreciation – Equipment \$20 000; Accounts Payable \$16 000; GST Clearing \$3 000; Loan – Harbour Bank \$18 000 (repayable over 6 years). The owner's opening Capital was \$60 000, the Budgeted Net Profit is \$14 000 and budgeted drawings are \$8 000.

- Calculate the budgeted closing Capital (Owner's Equity).
- Prepare the Budgeted Balance Sheet as at 30 June 2027.
- State the budgeted Total Assets and confirm that the report balances.

Question 3

Cedar & Co is planning a period and needs three budgeted closing balances. Using account reconstruction, calculate each closing balance.

- Inventory:** opening \$26 000; budgeted purchases \$72 000; budgeted Cost of Sales \$68 000.
- Accounts Receivable:** opening \$20 000; budgeted credit sales \$90 000 (plus GST); budgeted receipts from accounts receivable \$96 000.
- Accounts Payable:** opening \$14 000; budgeted credit purchases \$72 000 (plus GST); budgeted payments to accounts payable \$75 000.

Question 4

Fairhaven Motors is planning the year ending 30 June 2027.

- Reconstruct the budgeted closing balance of **Accumulated Depreciation – Equipment**: the opening balance is \$22 000 and budgeted depreciation for the year is \$8 000.
- The Equipment cost \$64 000. Calculate its budgeted carrying amount as at 30 June 2027.
- Reconstruct the budgeted closing **Capital**: opening Capital \$58 000; Budgeted Net Profit \$15 000; budgeted drawings \$9 000.

Question 5

Willowbank Trading is planning the year ending 30 June 2027. It budgets: Net Sales \$110 000; Cost of Sales \$62 000; Discount Revenue \$2 000; Wages \$22 000; Rent \$8 000; Advertising \$3 000; Interest \$2 000; Depreciation \$6 000. The owner's opening Capital is \$50 000 and budgeted drawings are \$7 000.

- Prepare the Budgeted Income Statement and state the Budgeted Net Profit.
- Calculate the budgeted closing Capital.
- Explain why the budgeted depreciation of \$6 000 reduces the Budgeted Net Profit but does **not** appear in the Budgeted Cash Flow Statement.

Question 6

Glenhaven Traders has prepared a full set of budgeted reports.

- Explain how a business can budget a healthy Net Profit yet also budget a **fall** in its bank balance over the same period.
- Explain how **account reconstruction** is used to determine the budgeted closing balance of Accounts Receivable for the Budgeted Balance Sheet.
- Explain why the Budgeted Balance Sheet must still **balance** (Assets = Liabilities + Owner's Equity) even though every figure in it is only an estimate.

Practice questions — unscaffolded

Question 7

Hartfield Supplies is planning the year ending 30 June 2027. It budgets: Sales \$200 000; Sales Returns \$6 000; Cost of Sales \$108 000; Discount Revenue \$3 000; Wages \$34 000; Rent \$14 000; Advertising \$6 000; Interest \$4 000; Depreciation – Equipment \$9 000; Bad debts \$2 000. Prepare the Budgeted Income Statement and state the Gross Profit and the Budgeted Net Profit.

Question 8

Oakmont Wholesalers is planning the year ending 30 June 2027. It budgets: Sales \$240 000; Sales Returns \$8 000; Cost of Sales \$128 000; Cartage Inwards \$6 000; Discount Revenue \$2 000; Wages \$38 000; Cartage Outwards \$5 000; Rent \$15 000; Interest \$5 000; Depreciation – Vehicles \$10 000. Prepare the Budgeted Income Statement (reporting Cartage Inwards as a period cost within Cost of Goods Sold) and state the Gross Profit and the Budgeted Net Profit.

Question 9

Pinehurst Trading expects the following as at 30 June 2027: Bank \$11 000; Accounts Receivable \$27 000; Inventory \$37 000; Equipment \$70 000; Accumulated Depreciation – Equipment \$26 000; Accounts Payable \$19 000; GST Clearing \$4 000; Loan – Delta Finance \$22 000 (repayable over 7 years). The opening Capital was \$66 000, the Budgeted Net Profit is \$18 000 and budgeted drawings are \$10 000. Prepare the Budgeted Balance Sheet as at 30 June 2027 and confirm that it balances.

Question 10

Ravenswood Homewares budgets credit sales of \$120 000 (plus GST) and receipts from accounts receivable of \$128 000 for the coming period. The opening Accounts Receivable balance is \$25 000. Using account reconstruction, calculate the budgeted closing balance of Accounts Receivable.

Question 11

Thornbury Timber budgets credit purchases of inventory of \$95 000 (plus GST) and payments to accounts payable of \$99 000 for the coming period. The opening Accounts Payable balance is \$17 000. Using account reconstruction, calculate the budgeted closing balance of Accounts Payable.

Question 12

Marloway's Hardware budgets, for the coming period: opening Inventory \$28 000; purchases of inventory \$84 000; Cost of Sales \$79 000; and inventory taken by the owner as drawings \$2 000. Using account reconstruction, calculate the budgeted closing balance of Inventory.

Question 13

Eaglemont Traders budgets the following for the coming period: opening Bank \$7 000; receipts from cash sales (incl. GST) \$55 000; receipts from accounts receivable \$88 000; payments to accounts payable \$90 000; Wages \$26 000; Rent (incl. GST) \$9 900; Interest \$3 000; drawings \$6 000; loan repayment \$4 000; and the cash purchase of new equipment (incl. GST) \$5 000. Calculate the budgeted closing Bank balance that will appear in the Budgeted Balance Sheet.

Question 14

Southgate Freight owns Equipment that cost \$80 000, with an opening Accumulated Depreciation of \$30 000. Its Budgeted Balance Sheet as at 30 June 2027 is expected to report the Equipment at a carrying amount of \$42 000. Using account reconstruction, calculate the budgeted depreciation expense for the year and the budgeted closing balance of Accumulated Depreciation.

Question 15

Camberwell Interiors expects, as at 30 June 2027, budgeted Total Assets of \$120 000 and budgeted Total Liabilities of \$44 000. The owner's opening Capital was \$60 000 and budgeted drawings for the year are \$9 000. Calculate the budgeted closing Owner's Equity and, using it, the Budgeted Net Profit for the year.

Question 16

Northcliff Traders is planning the year ending 30 June 2027. At 1 July 2026: Bank \$10 000; Accounts Receivable \$26 000; Inventory \$32 000; Equipment \$70 000; Accumulated Depreciation \$25 000; Accounts Payable \$18 000; GST Clearing \$3 000; Loan – Parkway Bank \$30 000; Capital \$62 000. For the year it budgets: cash sales \$60 000 and credit sales \$100 000 (both plus GST); Cost of Sales \$90 000; credit purchases \$100 000 (plus GST); receipts from accounts receivable \$106 000; payments to accounts payable \$104 000; Wages \$30 000; Rent \$12 000 and Advertising \$5 000 (both plus GST); Interest \$3 000; Depreciation \$9 000; drawings \$8 000; and a loan repayment of \$6 000. Prepare the Budgeted Income Statement and the Budgeted Balance Sheet.

Question 17

Riverton Trading has budgeted a Net Profit of \$15 000 for the year ending 30 June 2027, yet its Budgeted Cash Flow Statement shows the bank balance **falling** by \$3 000 over the same year. The owner is confused: "If we are budgeting a profit, how can the bank go **down**?" Explain, with reference to the accrual basis and to at least three specific reasons, why the Budgeted Net Profit differs from the budgeted change in the bank balance.

Question 18

Willowmere Wholesalers is planning the year ending 30 June 2027. At 1 July 2026: Bank \$12 000; Accounts Receivable \$30 000; Inventory \$40 000; Equipment \$90 000; Accumulated Depreciation \$32 000; Accounts Payable \$22 000; GST Clearing \$4 000; Loan – Coastline Bank \$35 000; Capital \$79 000. For the year it budgets: cash sales \$70 000 and credit sales \$130 000 (both plus GST); Cost of Sales \$108 000; Cartage Inwards \$4 000 (plus GST, a period cost reported within Cost of Goods Sold); credit purchases of inventory \$120 000 (plus GST); receipts from accounts receivable \$138 000; payments to accounts payable \$118 000 together with Discount Revenue of \$1 000 earned for paying early; Wages \$40 000; Rent \$16 000 and Advertising \$6 000 (both plus GST); Interest \$4 000; Depreciation \$11 000; drawings \$10 000; and a loan repayment of \$7 000. Prepare the Budgeted Income Statement and the Budgeted Balance Sheet as at 30 June 2027.

Answers

1.
 - a. Net Sales \$127 000 b. Gross Profit \$57 000 c. Budgeted Net Profit \$14 000
2.
 - a. Owner's Equity \$66 000 c. Total Assets \$103 000 (balances: liabilities \$37 000 + OE \$66 000)
3.
 - a. Inventory \$30 000 b. Accounts Receivable \$23 000 c. Accounts Payable \$18 200
4.
 - a. Accumulated Depreciation \$30 000 b. Carrying amount \$34 000 c. Capital \$64 000
5.
 - a. Budgeted Net Profit \$9 000 b. Closing Capital \$52 000 c. See solutions (non-cash expense)
6. See solutions
7. Gross Profit \$86 000; Budgeted Net Profit \$20 000
8. Gross Profit \$98 000; Budgeted Net Profit \$27 000
9. Total Assets \$119 000 (balances: liabilities \$45 000 + OE \$74 000)
10. Accounts Receivable \$29 000
11. Accounts Payable \$22 500
12. Inventory \$31 000
13. Bank \$6 100
14. Budgeted depreciation \$8 000; closing Accumulated Depreciation \$38 000
15. Owner's Equity \$76 000; Budgeted Net Profit \$25 000
16. Budgeted Net Profit \$11 000; Total Assets \$120 300 (balances: liabilities \$55 300 + OE \$65 000)
17. See solutions
18. Budgeted Net Profit \$12 000; Total Assets \$153 400 (balances: liabilities \$72 400 + OE \$81 000)

Fully-worked solutions

Question 1

- a. Net Sales = Sales \$130 000 – Sales Returns \$3 000 = **\$127 000**.
- b. Gross Profit = Net Sales \$127 000 – Cost of Sales \$70 000 = **\$57 000**.
- c. Expenses = \$24 000 + \$9 000 + \$4 000 + \$2 000 + \$5 000 = \$44 000; Budgeted Net Profit = (\$57 000 + Discount Revenue \$1 000) – \$44 000 = **\$14 000**.

Budgeted Income

Statement for the year

ending 30 June 2027

\$

\$

Revenue

Sales	130 000	
less Sales Returns	3 000	
Net Sales		127 000
less Cost of Sales		70 000
Gross Profit		57 000
add Discount Revenue		1 000
		58 000

less Expenses

Wages	24 000
Rent expense	9 000
Advertising	4 000

Budgeted Income Statement for the year ending 30 June 2027	\$	\$
Interest expense	2 000	
Depreciation – Equipment	5 000	
Total Expenses		44 000
Budgeted Net Profit		14 000

Question 2

- a. Owner's Equity = Capital \$60 000 + Budgeted Net Profit \$14 000 – Drawings \$8 000 = **\$66 000**.

Budgeted Balance Sheet of Brookvale Traders as at 30 June 2027

	\$	\$
Current Assets		
Bank	9 000	
Accounts Receivable	24 000	
Inventory	35 000	68 000
Non-Current Assets		
Equipment	55 000	
less Accumulated Depreciation	(20 000)	35 000
Total Assets		103 000
Current Liabilities		
Accounts Payable	16 000	
GST Clearing	3 000	19 000
Non-Current Liabilities		
Loan – Harbour Bank		18 000
Total Liabilities		37 000
Owner's Equity		
Capital	60 000	
add Budgeted Net Profit	14 000	
less Drawings	(8 000)	66 000
Total Liabilities and Owner's Equity		103 000

- c. Budgeted Total Assets = **\$103 000**. The report balances: Total Liabilities \$37 000 + Owner's Equity \$66 000 = \$103 000 = Total Assets.

Question 3

- a. Inventory = opening \$26 000 + purchases \$72 000 – Cost of Sales \$68 000 = **\$30 000**.
- b. Credit sales incl. GST = \$90 000 + GST \$9 000 = \$99 000. Accounts Receivable = opening \$20 000 + \$99 000 – receipts \$96 000 = **\$23 000**.
- c. Credit purchases incl. GST = \$72 000 + GST \$7 200 = \$79 200. Accounts Payable = opening \$14 000 + \$79 200 – payments \$75 000 = **\$18 200**.

Question 4

- a. Accumulated Depreciation = opening \$22 000 + budgeted depreciation \$8 000 = **\$30 000**.

- b. Carrying amount = cost \$64 000 – Accumulated Depreciation \$30 000 = **\$34 000**.
- c. Capital = opening \$58 000 + Budgeted Net Profit \$15 000 – Drawings \$9 000 = **\$64 000**.

Question 5

- a. Gross Profit = \$110 000 – \$62 000 = \$48 000; add Discount Revenue \$2 000 = \$50 000; Expenses = \$22 000 + \$8 000 + \$3 000 + \$2 000 + \$6 000 = \$41 000; Budgeted Net Profit = \$50 000 – \$41 000 = **\$9 000**.

Budgeted Income

Statement for the year

ending 30 June 2027

	\$	\$
Net Sales		110 000
less Cost of Sales		62 000
Gross Profit		48 000
add Discount Revenue		2 000
		50 000
less Expenses		
Wages	22 000	
Rent expense	8 000	
Advertising	3 000	
Interest expense	2 000	
Depreciation	6 000	
Total Expenses		41 000
Budgeted Net Profit		9 000

- b. Closing Capital = opening \$50 000 + Budgeted Net Profit \$9 000 – Drawings \$7 000 = **\$52 000**.
- c. **Depreciation is a non-cash expense.** It is the allocation of part of the Equipment's cost as an expense of the period, so it reduces the Budgeted Net Profit in the Budgeted Income Statement. But **no cash is paid** for depreciation (the cash for the asset was paid when it was bought), so depreciation never appears in the Budgeted Cash Flow Statement. This is one reason budgeted profit and the budgeted change in cash differ.

Question 6

- a. The Budgeted Income Statement is prepared on the **accrual basis**, so it reports **revenue earned and expenses incurred**, not cash. A business can budget a Net Profit while its bank falls because: **credit sales** are revenue in full but only part of the cash may be collected in the period; **non-cash expenses** such as depreciation reduce profit without reducing cash; and large **cash outflows that are not expenses** — **drawings, loan repayments** and the **purchase of a non-current asset** — reduce the bank without reducing profit. If these cash outflows exceed the net cash generated by trading, the bank falls even though a profit is budgeted.
- b. Account reconstruction rebuilds the **Accounts Receivable** ledger account from its known movements. The **opening balance** is the debit start; budgeted **credit sales including GST** are added (a debit, because the debtor is charged the GST-inclusive price); budgeted **receipts from accounts receivable** are subtracted (a credit). The figure left is the budgeted **closing balance**: closing = opening + credit sales incl. GST – receipts. That closing figure is the Accounts Receivable reported in the Budgeted Balance Sheet.
- c. The Budgeted Balance Sheet must balance because it is built on the **double-entry system** and the **accounting equation**, $A = L + OE$. Every budgeted transaction has an equal debit and credit, so the expected assets, liabilities and owner's equity stay in balance. In particular, the **Budgeted Net Profit** is transferred into **Capital**, which lifts owner's equity by exactly the net effect the same revenues and expenses have had on the assets and liabilities. Being estimates does not change the arithmetic: provided every budgeted transaction is recorded on both sides, Total Assets will equal Total Liabilities plus Owner's Equity.

Question 7

Net Sales = \$200 000 – \$6 000 = \$194 000; Gross Profit = \$194 000 – \$108 000 = **\$86 000**; add Discount Revenue \$3 000 = \$89 000; Expenses = \$34 000 + \$14 000 + \$6 000 + \$4 000 + \$9 000 + \$2 000 = \$69 000; Budgeted Net Profit = \$89 000 – \$69 000 = **\$20 000**.

Budgeted Income

Statement for the year
ending 30 June 2027

	\$	\$
Revenue		
Sales	200 000	
less Sales Returns	6 000	
Net Sales		194 000
less Cost of Sales		108 000
Gross Profit		86 000
add Discount Revenue		3 000
		89 000
less Expenses		
Wages	34 000	
Rent expense	14 000	
Advertising	6 000	
Interest expense	4 000	
Depreciation – Equipment	9 000	
Bad debts	2 000	
Total Expenses		69 000
Budgeted Net Profit		20 000

Question 8

Net Sales = \$240 000 – \$8 000 = \$232 000; Cost of Goods Sold = Cost of Sales \$128 000 + Cartage Inwards \$6 000 = \$134 000; Gross Profit = \$232 000 – \$134 000 = **\$98 000**; add Discount Revenue \$2 000 = \$100 000; Expenses = \$38 000 + \$5 000 + \$15 000 + \$5 000 + \$10 000 = \$73 000; Budgeted Net Profit = \$100 000 – \$73 000 = **\$27 000**.

Budgeted Income

Statement for the year
ending 30 June 2027

	\$	\$
Revenue		
Sales	240 000	
less Sales Returns	8 000	
Net Sales		232 000
less Cost of Goods Sold		
Cost of Sales	128 000	
add Cartage Inwards	6 000	
Cost of Goods Sold		134 000
Gross Profit		98 000
add Discount Revenue		2 000
		100 000
less Expenses		
Wages	38 000	
Cartage Outwards	5 000	

Budgeted Income Statement for the year ending 30 June 2027	\$	\$
Rent expense	15 000	
Interest expense	5 000	
Depreciation – Vehicles	10 000	
Total Expenses		73 000
Budgeted Net Profit		27 000

Question 9

Owner's Equity = Capital \$66 000 + Budgeted Net Profit \$18 000 – Drawings \$10 000 = \$74 000.

Budgeted Balance Sheet of Pinehurst Trading as at 30 June 2027

	\$	\$
Current Assets		
Bank	11 000	
Accounts Receivable	27 000	
Inventory	37 000	75 000
Non-Current Assets		
Equipment	70 000	
less Accumulated Depreciation	(26 000)	44 000
Total Assets		119 000
Current Liabilities		
Accounts Payable	19 000	
GST Clearing	4 000	23 000
Non-Current Liabilities		
Loan – Delta Finance		22 000
Total Liabilities		45 000
Owner's Equity		
Capital	66 000	
add Budgeted Net Profit	18 000	
less Drawings	(10 000)	74 000
Total Liabilities and Owner's Equity		119 000

The report balances: Total Assets \$119 000 = Total Liabilities \$45 000 + Owner's Equity \$74 000.

Question 10

Credit sales incl. GST = \$120 000 + GST \$12 000 = \$132 000. Accounts Receivable = opening \$25 000 + \$132 000 – receipts \$128 000 = **\$29 000**.

Accounts Receivable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
Start	Balance	25 000		Bank (receipts)	128 000
	Sales / GST Clearing	132 000	End	Balance c/d	29 000

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
		157 000			157 000

Question 11

Credit purchases incl. GST = \$95 000 + GST \$9 500 = \$104 500. Accounts Payable = opening \$17 000 + \$104 500 – payments \$99 000 = **\$22 500**.

Accounts Payable

Date	Cross-reference	Amount \$	Date	Cross-reference	Amount \$
	Bank (payments)	99 000	Start	Balance	17 000
End	Balance c/d	22 500		Inventory / GST Clearing	104 500
		121 500			121 500

Question 12

Inventory = opening \$28 000 + purchases \$84 000 – Cost of Sales \$79 000 – inventory drawings \$2 000 = **\$31 000**. (Inventory taken by the owner as drawings is an OUT movement at cost — no GST and no revenue arises — so it reduces the Inventory asset just as Cost of Sales does.)

Question 13

Budgeted Bank = opening \$7 000 + receipts (cash sales \$55 000 + accounts receivable \$88 000) – payments (accounts payable \$90 000 + Wages \$26 000 + Rent \$9 900 + Interest \$3 000 + drawings \$6 000 + loan repayment \$4 000 + equipment \$5 000).

Receipts = \$55 000 + \$88 000 = \$143 000; payments = \$90 000 + \$26 000 + \$9 900 + \$3 000 + \$6 000 + \$4 000 + \$5 000 = \$143 900. Budgeted closing Bank = opening \$7 000 + receipts \$143 000 – payments \$143 900 = **\$6 100** (a current asset in the Budgeted Balance Sheet). Note that the drawings, the loan repayment and the equipment purchase are cash outflows but **not** expenses, so they reduce the bank without affecting Budgeted Net Profit.

Question 14

The carrying amount = cost – Accumulated Depreciation, so the budgeted closing Accumulated Depreciation = cost \$80 000 – carrying amount \$42 000 = **\$38 000**. Reconstructing the account, the budgeted depreciation is the increase: closing \$38 000 – opening \$30 000 = **\$8 000**.

Question 15

Budgeted closing Owner's Equity = Total Assets \$120 000 – Total Liabilities \$44 000 = **\$76 000**. Because closing Capital = opening Capital + Budgeted Net Profit – Drawings, the Budgeted Net Profit = closing Capital \$76 000 – opening Capital \$60 000 + Drawings \$9 000 = **\$25 000**.

Question 16

Budgeted Income Statement. Net Sales = \$60 000 + \$100 000 = \$160 000; Gross Profit = \$160 000 – \$90 000 = \$70 000; Expenses = \$30 000 + \$12 000 + \$5 000 + \$3 000 + \$9 000 = \$59 000; Budgeted Net Profit = \$70 000 – \$59 000 = **\$11 000**.

Budgeted Income

Statement for the year
ending 30 June 2027

	\$	\$
Revenue		
Sales (cash \$60 000 + credit \$100 000)		160 000
Net Sales		160 000

Budgeted Income
Statement for the year
ending 30 June 2027

	\$	\$
less Cost of Sales		90 000
Gross Profit		70 000
less Expenses		
Wages	30 000	
Rent expense	12 000	
Advertising	5 000	
Interest expense	3 000	
Depreciation	9 000	
Total Expenses		59 000
Budgeted Net Profit		11 000

Reconstructions. Inventory = \$32 000 + \$100 000 – \$90 000 = \$42 000; Accounts Receivable = \$26 000 + \$110 000 (credit sales \$100 000 + GST \$10 000) – \$106 000 = \$30 000; Accounts Payable = \$18 000 + \$110 000 (purchases \$100 000 + GST \$10 000) – \$104 000 = \$24 000; Accumulated Depreciation = \$25 000 + \$9 000 = \$34 000 (carrying amount \$70 000 – \$34 000 = \$36 000); GST Clearing = \$3 000 + \$16 000 – (\$10 000 + \$1 200 + \$500) = \$7 300; Capital = \$62 000 + \$11 000 – \$8 000 = \$65 000; Loan = \$30 000 – \$6 000 = \$24 000. Budgeted Bank = \$10 000 + (\$66 000 + \$106 000) – (\$104 000 + \$30 000 + \$13 200 + \$5 500 + \$3 000 + \$8 000 + \$6 000) = \$12 300.

Budgeted Balance Sheet of Northcliff Traders as at 30 June 2027

	\$	\$
Current Assets		
Bank	12 300	
Accounts Receivable	30 000	
Inventory	42 000	84 300
Non-Current Assets		
Equipment	70 000	
less Accumulated Depreciation	(34 000)	36 000
Total Assets		120 300
Current Liabilities		
Accounts Payable	24 000	
GST Clearing	7 300	31 300
Non-Current Liabilities		
Loan – Parkway Bank		24 000
Total Liabilities		55 300
Owner's Equity		
Capital	62 000	
add Budgeted Net Profit	11 000	
less Drawings	(8 000)	65 000
Total Liabilities and Owner's Equity		120 300

The report balances: Total Assets \$120 300 = Total Liabilities \$55 300 + Owner's Equity \$65 000.

Question 17

The Budgeted Income Statement is prepared on the **accrual basis** — it reports revenue **earned** and expenses **incurred** — while the Budgeted Cash Flow Statement reports only cash **received** and **paid**. The two therefore measure different things, and the \$15 000 budgeted profit can sit alongside a \$3 000 fall in the bank for several reasons:

- **Credit sales are revenue in full when earned, but not all the cash is collected** in the period — the uncollected part is budgeted to increase Accounts Receivable, so profit rises without the matching cash.
- **Depreciation (and bad debts) are non-cash expenses** that reduce the budgeted profit but involve no cash outflow, so they lower profit without lowering the bank.
- **Drawings** by the owner, **loan repayments** and the **purchase of a non-current asset** are cash outflows that are **not expenses**, so they drain the bank without reducing profit.
- The **timing of payments to suppliers** (paying more to accounts payable than the period's purchases) can also take more cash out than the expenses recognised.

∴ a budgeted profit and a budgeted fall in cash are entirely consistent: profit measures expected performance on the accrual basis, whereas the bank movement measures the expected cash flows, which include non-expense outflows and exclude non-cash expenses. This is exactly why a business prepares **all three** budgeted reports rather than relying on profit alone.

Question 18

Budgeted Income Statement. Net Sales = \$70 000 + \$130 000 = \$200 000; Cost of Goods Sold = Cost of Sales \$108 000 + Cartage Inwards \$4 000 = \$112 000; Gross Profit = \$200 000 – \$112 000 = \$88 000; add Discount Revenue \$1 000 = \$89 000; Expenses = \$40 000 + \$16 000 + \$6 000 + \$4 000 + \$11 000 = \$77 000; Budgeted Net Profit = \$89 000 – \$77 000 = **\$12 000**.

Budgeted Income

Statement for the year
ending 30 June 2027

	\$	\$
Revenue		
Sales (cash \$70 000 + credit \$130 000)		200 000
Net Sales		200 000
less Cost of Goods Sold		
Cost of Sales	108 000	
add Cartage Inwards	4 000	
Cost of Goods Sold		112 000
Gross Profit		88 000
add Discount Revenue		1 000
		89 000
less Expenses		
Wages	40 000	
Rent expense	16 000	
Advertising	6 000	
Interest expense	4 000	
Depreciation	11 000	
Total Expenses		77 000
Budgeted Net Profit		12 000

Reconstructions. Inventory = \$40 000 + purchases \$120 000 – Cost of Sales \$108 000 = \$52 000; Accounts Receivable = \$30 000 + \$143 000 (credit sales \$130 000 + GST \$13 000) – receipts \$138 000 = \$35 000; Accounts Payable = \$22 000 + \$132 000 (purchases \$120 000 + GST \$12 000) – payments \$118 000 – Discount Revenue \$1 000 = \$35 000; Accumulated Depreciation = \$32 000 + \$11 000 = \$43 000 (carrying amount \$90 000 – \$43 000 = \$47 000).

000); GST Clearing = \$4 000 + GST collected \$20 000 – GST paid (\$12 000 + \$400 + \$1 600 + \$600) = \$9 400;
 Capital = \$79 000 + \$12 000 – \$10 000 = \$81 000; Loan = \$35 000 – \$7 000 = \$28 000. Budgeted Bank = \$12 000 +
 (\$77 000 + \$138 000) – (\$4 400 + \$118 000 + \$40 000 + \$17 600 + \$6 600 + \$4 000 + \$10 000 + \$7 000) = \$19 400.

Budgeted Balance Sheet of Willowmere Wholesalers as at 30 June 2027

	\$	\$
Current Assets		
Bank	19 400	
Accounts Receivable	35 000	
Inventory	52 000	106 400
Non-Current Assets		
Equipment	90 000	
less Accumulated Depreciation	(43 000)	47 000
Total Assets		153 400
Current Liabilities		
Accounts Payable	35 000	
GST Clearing	9 400	44 400
Non-Current Liabilities		
Loan – Coastline Bank		28 000
Total Liabilities		72 400
Owner's Equity		
Capital	79 000	
add Budgeted Net Profit	12 000	
less Drawings	(10 000)	81 000
Total Liabilities and Owner's Equity		153 400

The report balances: Total Assets \$153 400 = Total Liabilities \$72 400 + Owner's Equity \$81 000.

Chapter 17 Budgeting — 17D Variance reports

Theory

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

Budget versus actual. The **budget** is the expected figure (from the Budgeted Income Statement or Budgeted Cash Flow Statement); the **actual** is what really happened (from the actual Income Statement or 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**, not of recording — it does not create any ledger entries.

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

Variance = the difference between budgeted \$ and actual \$

The size of the variance tells you *how far* actual performance was from the plan. The **direction** of the difference — and, crucially, 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 relative to the budget, and **Unfavourable (U)** if it **decreases** profit or cash. Which way round that works depends on whether the item is a **revenue/receipt** or an **expense/payment**:

Item type	Actual greater than budget	Actual less than budget
Revenue / cash inflow (e.g. sales, fees, receipts from Accounts Receivable)	Favourable	Unfavourable
Expense / cash outflow (e.g. cost of sales, wages, payments to Accounts Payable)	Unfavourable	Favourable

The logic is always the same: 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 actual **equals** budget there is **no variance**, and the line is neither favourable nor unfavourable.

The net variance. After every line has been compared, the report shows the variance in the **bottom line** — the **Net Profit** (in a profit variance report) or the **net cash flow**, reported on the **Net Increase/(Decrease) in Cash** line (in a cash variance report). The net variance is simply the **actual net figure less the budgeted net figure**, labelled F if actual exceeds 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, an individual variance has been calculated or labelled incorrectly. Add only the **individual item** lines when applying the check: subtotals such as **Gross Profit**, **Total Expenses** or **Net Cash Flows from Operating Activities** are themselves built from those items, so including them would count the same dollars twice.

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. This is called **management by exception**. 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 plan.
- An **unfavourable expense variance** may mean 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 label describes only the **effect on profit or cash**, not whether management should be pleased. Spending **\$4 000 less** than budgeted on advertising is a **favourable** expense variance, but if that under-spending contributed to sales falling **\$15 000 below** budget, 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.

Report format. A variance report is set out as a table with five columns — the **item**, the **budgeted \$**, the **actual \$**, the **variance \$** and the **F/U** label — and it is **classified** in the same way as the report it is built from, so the two can be read line for line:

- a **profit** variance report follows the classified **Income Statement**: revenue, *less* **Cost of Sales**, a **Gross Profit** subtotal, any **other revenue**, *less* the expenses, a **Total Expenses** subtotal, and finally **Net Profit**;
- a **cash** variance report follows the classified **Cash Flow Statement**: separate **Operating Activities**, **Investing Activities** and **Financing Activities** sections, each with its own **Net Cash Flows from ... Activities** subtotal, then **Net Increase/(Decrease) in Cash** and, where an opening balance is given, the reconciliation to the closing **Bank** balance.

Each subtotal carries its own variance and F/U label, so the report shows not only which items moved but which *section* of the business the movement came from. In the **Budget \$** and **Actual \$** columns the ordinary reporting conventions apply — a cash outflow, a net cash deficit or an overdrawn Bank balance is shown in **brackets**. The **variance \$** column, however, is **always a positive amount**, because it is the **F/U** column — not a sign — that carries the direction of each difference. A profit variance report is titled for a **period** (“...for the month/year ended...”), matching the report it is built from.

Worked model. Brookvale Cycles budgeted a net profit of \$9 000 for the month ended 31 May 2026. Its actual net profit was \$10 900. The variance report below compares each item.

Variance Report —
Net Profit for the
month ended 31
May 2026

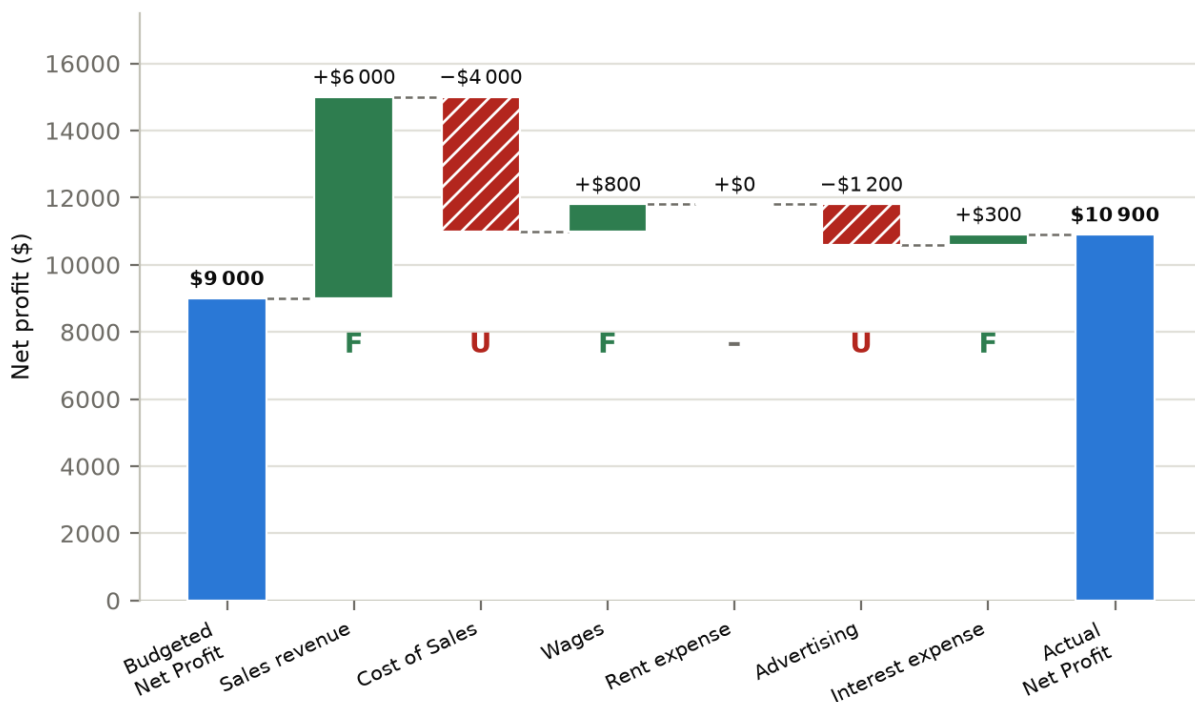
	Budget \$	Actual \$	Variance \$	F/U
Sales revenue	90 000	96 000	6 000	F
less Cost of Sales	54 000	58 000	4 000	U
Gross Profit	36 000	38 000	2 000	F
less Expenses				
Wages	15 000	14 200	800	F
Rent expense	7 200	7 200	—	—
Advertising	3 000	4 200	1 200	U
Interest expense	1 800	1 500	300	F
Total Expenses	27 000	27 100	100	U
Net Profit	9 000	10 900	1 900	F

Variance Report —
Net Profit for the
month ended 31
May 2026

Budget \$	Actual \$	Variance \$	F/U
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Sales were \$6 000 above budget (a favourable revenue variance), while Cost of Sales and Advertising were above budget (unfavourable expense variances). Because Sales beat budget by more than Cost of Sales exceeded it, **Gross Profit** was **\$2 000 F**; Total Expenses then ran \$100 over budget (**\$100 U**), so the bottom line improved by **\$1 900 F**. The built-in check holds on the item lines: total favourable \$7 100 (6 000 + 800 + 300) less total unfavourable \$5 200 (4 000 + 1 200) = **\$1 900 F**.

The variance report
Brookvale Cycles — month ended 31 May 2026



Total favourable \$7 100 less total unfavourable \$5 200 = \$1 900 F — the distance from the budgeted profit to the actual one.

Brookvale Cycles' variance report as a bridge from the budgeted net profit to the actual one

Each column is one line of the report, drawn in the direction that line moved profit — so a favourable variance steps up and an unfavourable one steps down, whichever line it sits on. That is what stops the \$6 000 on Sales and the \$4 000 on Cost of Sales being added together. The \$7 100 of favourable variances less the \$5 200 of unfavourable is the \$1 900 F that separates the first column from the last.

Worked examples (scaffolded)

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

Meadowlark Furniture budgeted the following for the month ended 30 June 2026: Sales revenue \$120 000; Cost of Sales \$72 000; Wages \$22 000; Rent expense \$9 000; Advertising \$4 000; Interest expense \$2 000. The **actual** results were: Sales revenue \$132 000; Cost of Sales \$80 000; Wages \$22 000; Rent expense \$8 400; Advertising \$6 000; Interest expense \$2 300.

Working	Comment
Sales revenue: \$132 000 – \$120 000 = \$12 000. Revenue <i>above</i> budget, so \$12 000 F .	More revenue than planned increases profit, so higher-than-budget revenue is favourable.

Working	Comment
Cost of Sales: \$80 000 – \$72 000 = \$8 000. An expense <i>above</i> budget, so \$8 000 U .	Spending more than planned on an expense reduces profit — unfavourable.
Gross Profit: budget \$120 000 – \$72 000 = \$48 000; actual \$132 000 – \$80 000 = \$52 000, so \$4 000 F .	The classified report subtotals to Gross Profit before the expenses. Its variance is the Sales and Cost of Sales variances netted off (\$12 000 F – \$8 000 U).
Wages: \$22 000 – \$22 000 = 0. No variance.	Actual equals budget, so the line is neither favourable nor unfavourable.
Rent expense: \$9 000 – \$8 400 = \$600. An expense <i>below</i> budget, so \$600 F .	Spending less than planned on an expense increases profit — favourable.
Advertising: \$6 000 – \$4 000 = \$2 000 over budget, so \$2 000 U .	An expense above budget is unfavourable.
Interest expense: \$2 300 – \$2 000 = \$300 over budget, so \$300 U .	An expense above budget is unfavourable.
Total Expenses: budget \$37 000; actual \$38 700, so \$1 700 U .	The expense block is subtotalled before Net Profit, exactly as in the classified Income Statement.
Net profit: budget \$11 000; actual \$13 300; variance \$2 300 F . Check: favourable \$12 600 (12 000 + 600) – unfavourable \$10 300 (8 000 + 2 000 + 300) = \$2 300 F.	The net variance equals total favourable minus total unfavourable across the item lines — always cross-check it. It also equals Gross Profit \$4 000 F – Total Expenses \$1 700 U.

Variance Report —
Net Profit for the
month ended 30

June 2026	Budget \$	Actual \$	Variance \$	F/U
Sales revenue	120 000	132 000	12 000	F
less Cost of Sales	72 000	80 000	8 000	U
Gross Profit	48 000	52 000	4 000	F
less Expenses				
Wages	22 000	22 000	—	—
Rent expense	9 000	8 400	600	F
Advertising	4 000	6 000	2 000	U
Interest expense	2 000	2 300	300	U
Total Expenses	37 000	38 700	1 700	U
Net Profit	11 000	13 300	2 300	F

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

Harbourfront Cafe began June with a Bank balance of \$8 000. For the month ended 30 June 2026 it budgeted these cash flows: Cash sales \$60 000; Receipts from Accounts Receivable \$25 000; Payments to Accounts Payable \$38 000; Wages \$18 000; Rent paid \$6 000; GST paid \$4 000. The **actual** cash flows were: Cash sales \$64 000; Receipts from Accounts Receivable \$21 000; Payments to Accounts Payable \$41 000; Wages \$17 200; Rent paid \$6 000; GST paid \$3 500.

Working	Comment
Cash sales: \$64 000 – \$60 000 = \$4 000 above budget, an inflow, so \$4 000 F .	Receiving more cash than planned is favourable for cash.
Receipts from Accounts Receivable: \$25 000 – \$21 000 = \$4 000 <i>below</i> budget, so \$4 000 U .	Collecting less cash than planned is unfavourable.
Payments to Accounts Payable: \$41 000 – \$38 000 =	Paying out more cash than planned is unfavourable.

Working	Comment
\$3 000 above budget, an outflow, so \$3 000 U .	
Wages: \$18 000 – \$17 200 = \$800 below budget, an outflow, so \$800 F .	Paying out less than planned is favourable.
Rent paid: \$6 000 – \$6 000 = 0. No variance.	Actual equals budget.
GST paid: \$4 000 – \$3 500 = \$500 below budget, so \$500 F .	A smaller cash outflow than planned is favourable.
Classification: every one of these six flows is day-to-day trading , so all six sit in Operating Activities ; there are no investing or financing flows to report.	The variance report is classified exactly like the Cash Flow Statement it is built from.
Net Cash Flows from Operating Activities: budget \$19 000; actual \$17 300; variance \$1 700 U . Check: favourable \$5 300 (4 000 + 800 + 500) – unfavourable \$7 000 (4 000 + 3 000) = –\$1 700, i.e. \$1 700 U .	With no other sections, this subtotal is also the Net Increase in Cash . Actual net cash was \$1 700 short of plan.
Bank at end: budget \$8 000 + \$19 000 = \$27 000; actual \$8 000 + \$17 300 = \$25 300; variance \$1 700 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
Operating Activities				
Cash sales	60 000	64 000	4 000	F
Receipts from Accounts Receivable	25 000	21 000	4 000	U
Payments to Accounts Payable	(38 000)	(41 000)	3 000	U
Wages	(18 000)	(17 200)	800	F
Rent paid	(6 000)	(6 000)	—	—
GST paid	(4 000)	(3 500)	500	F
Net Cash Flows from Operating Activities	19 000	17 300	1 700	U
Net Increase in Cash	19 000	17 300	1 700	U
add Bank balance at start (1 June 2026)	8 000	8 000	—	—
Bank balance at end (30 June 2026)	27 000	25 300	1 700	U

Worked examples (unscaffolded)

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

Sterling Hardware budgeted a net profit of \$14 000 for the month ended 31 July 2026 from: Sales revenue \$150 000; Cost of Sales \$90 000; Wages \$26 000; Advertising \$5 000; Rent expense \$12 000; Interest expense \$3 000. Its actual results were: Sales revenue \$141 000; Cost of Sales \$82 000; Wages \$27 500; Advertising \$4 200; Rent expense \$12 000; Interest expense \$3 000.

Sales fell \$9 000 short of budget (**\$9 000 U**). Cost of Sales was \$8 000 below budget (**\$8 000 F**), so Gross Profit slipped from \$60 000 to \$59 000 (**\$1 000 U**). Advertising came in \$800 below budget (**\$800 F**), but Wages ran \$1 500 over budget (**\$1 500 U**); Rent and Interest matched budget exactly (no variance), leaving Total Expenses \$700 over budget (**\$700 U**). Budgeted net profit \$14 000 fell to an actual \$12 300 — a net profit variance of **\$1 700 U** (favourable \$8 800 – unfavourable \$10 500).

Variance Report —

Net Profit for the
month ended 31

July 2026	Budget \$	Actual \$	Variance \$	F/U
Sales revenue	150 000	141 000	9 000	U
less Cost of Sales	90 000	82 000	8 000	F
Gross Profit	60 000	59 000	1 000	U
less Expenses				
Wages	26 000	27 500	1 500	U
Advertising	5 000	4 200	800	F
Rent expense	12 000	12 000	—	—
Interest expense	3 000	3 000	—	—
Total Expenses	46 000	46 700	700	U
Net Profit	14 000	12 300	1 700	U

∴ actual net profit of \$12 300 was **\$1 700 below budget** — an unfavourable result driven mainly by sales falling \$9 000 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

Coastline Marine budgeted a net cash inflow of \$17 500 for the month ended 31 August 2026 from: Cash sales \$45 000; Receipts from Accounts Receivable \$30 000; Payments to Accounts Payable \$28 000; Wages \$15 000; GST paid \$4 500; Purchase of equipment \$10 000. Its actual cash flows were: Cash sales \$51 000; Receipts from Accounts Receivable \$33 000; Payments to Accounts Payable \$31 000; Wages \$15 000; GST paid \$5 200; Purchase of equipment \$10 000.

Both operating inflows beat budget — Cash sales by \$6 000 (**F**) and Receipts from Accounts Receivable by \$3 000 (**F**). Payments to Accounts Payable were \$3 000 over budget (**U**) and GST paid \$700 over (**U**), so Net Cash Flows from Operating Activities rose \$5 300 **F**, from \$27 500 to \$32 800. Wages matched budget, and the equipment purchase — the only **investing** flow — went exactly to plan, leaving Investing Activities with no variance. The net cash inflow rose from a budgeted \$17 500 to an actual \$22 800 — a variance of **\$5 300 F** (favourable \$9 000 – unfavourable \$3 700).

Variance Report —

Cash for the month
ended 31 August

2026	Budget \$	Actual \$	Variance \$	F/U
Operating Activities				
Cash sales	45 000	51 000	6 000	F
Receipts from Accounts Receivable	30 000	33 000	3 000	F
Payments to Accounts Payable	(28 000)	(31 000)	3 000	U
Wages	(15 000)	(15 000)	—	—
GST paid	(4 500)	(5 200)	700	U

Variance Report —
Cash for the month
ended 31 August
2026

	Budget \$	Actual \$	Variance \$	F/U
Net Cash Flows from Operating Activities	27 500	32 800	5 300	F
Investing Activities				
Purchase of equipment	(10 000)	(10 000)	—	—
Net Cash Flows from Investing Activities	(10 000)	(10 000)	—	—
Net Increase in Cash	17 500	22 800	5 300	F

∴ actual net cash inflow of \$22 800 **exceeded budget by \$5 300 (F)**, led entirely by stronger-than-planned operating flows — cash sales and collections from Accounts Receivable.

Practice questions — scaffolded

Question 1

Brightwater Bakery budgeted the following for the month ended 30 September 2026: Sales revenue \$70 000; Cost of Sales \$42 000; Wages \$12 000; Rent expense \$5 000; Advertising \$2 500. Its actual results were: Sales revenue \$74 000; Cost of Sales \$45 000; Wages \$11 500; Rent expense \$5 000; Advertising \$3 200.

- Prepare a net profit variance report, showing the variance and F/U label for each item.
- State the net profit variance and label it F or U.
- Identify the item with the largest unfavourable variance.

Question 2

Parkside Plumbing budgeted these cash flows for the month ended 30 September 2026: Cash fees \$55 000; Receipts from Accounts Receivable \$20 000; Payments to Accounts Payable \$30 000; Wages \$16 000; GST paid \$3 500. Its actual cash flows were: Cash fees \$58 000; Receipts from Accounts Receivable \$18 500; Payments to Accounts Payable \$32 000; Wages \$15 000; GST paid \$3 500.

- Prepare a cash variance report, showing the variance and F/U label for each item.
- State the net cash flow variance and label it F or U.
- Explain, in one sentence, why receiving less from Accounts Receivable than budgeted is an unfavourable variance.

Question 3

Vantage Auto is reviewing its budget against actual results. For each item below the budgeted and actual figures are: Sales revenue \$100 000 / \$108 000; Cost of Sales \$60 000 / \$66 000; Wages \$20 000 / \$18 000; Discount Revenue \$1 200 / \$900; Advertising \$4 000 / \$4 000; Interest expense \$2 500 / \$2 900.

- State the variance and F/U label (or “no variance”) for each item.
- Calculate the total favourable variances and the total unfavourable variances, and use them to state the net profit variance with its label.
- 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

Ridgeline Sports budgeted a net profit of \$19 000 for the month ended 31 October 2026 from: Sales revenue \$200 000; Cost of Sales \$120 000; Wages \$34 000; Rent expense \$15 000; Advertising \$8 000; Interest expense \$4 000. Its actual results were: Sales revenue \$190 000; Cost of Sales \$110 000; Wages \$36 000; Rent expense \$15 000; Advertising \$6 500; Interest expense \$4 000.

- Prepare a net profit variance report.
- State the net profit variance and label it F or U.
- 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

Fairview Nursery began the month with a Bank balance of \$10 000. For the month ended 31 October 2026 it budgeted: Cash sales \$48 000; Receipts from Accounts Receivable \$22 000; Payments to Accounts Payable \$26 000; Wages \$14 000; GST paid \$3 000; Drawings \$5 000. Its actual cash flows were: Cash sales \$52 000; Receipts from Accounts Receivable \$20 000; Payments to Accounts Payable \$28 000; Wages \$14 000; GST paid \$3 400; Drawings \$6 000.

- Prepare a cash variance report, including the reconciliation to the closing Bank balance.
- State the net cash flow variance (F or U) and state the budgeted and actual Bank balance at the end of the month.
- 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.

- Explain what an unfavourable sales variance suggests about a period's performance, and state one possible cause.
- Explain one corrective action a business could take in response to a persistent unfavourable wages variance.
- Discuss one limitation of relying on a variance report to assess a business's performance.

Practice questions — unscaffolded

Question 7

Kingsley Timber & Hardware budgeted the following for the month ended 30 November 2026: Sales revenue \$260 000; Cost of Sales \$156 000; Wages \$40 000; Rent expense \$18 000; Advertising \$9 000; Interest expense \$5 000. Its actual results were: Sales revenue \$275 000; Cost of Sales \$168 000; Wages \$39 000; Rent expense \$18 000; Advertising \$11 000; Interest expense \$4 600. Prepare a net profit variance report and state the net profit variance with its F/U label.

Question 8

Seabreeze Outdoor budgeted these cash flows for the month ended 30 November 2026: Cash sales \$90 000; Receipts from Accounts Receivable \$40 000; Payments to Accounts Payable \$55 000; Wages \$24 000; Rent paid \$10 000; GST paid \$6 000. Its actual cash flows were: Cash sales \$95 000; Receipts from Accounts Receivable \$36 000; Payments to Accounts Payable \$58 000; Wages \$23 000; Rent paid \$10 000; GST paid \$6 500. Prepare a cash variance report and state the net cash flow variance with its F/U label.

Question 9

Delta Traders has the following budgeted and actual figures: Sales revenue \$180 000 / \$174 000; Discount Revenue \$2 000 / \$2 500; Cost of Sales \$108 000 / \$104 000; Wages \$30 000 / \$33 000; Discount Expense \$1 500 / \$1 200;

Advertising \$6 000 / \$6 000. 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

Highgate Electrical budgeted a net profit of \$44 000 for the month ended 31 December 2026 from: Sales revenue \$320 000; Cost of Sales \$192 000; Wages \$48 000; Rent expense \$20 000; Advertising \$10 000; Interest expense \$6 000. Its actual results were: Sales revenue \$332 000; Cost of Sales \$205 000; Wages \$47 000; Rent expense \$20 000; Advertising \$14 000; Interest expense \$6 400. 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

Tumbleweed Cafe began the month with a Bank balance of \$4 000. For the month ended 31 December 2026 it budgeted: Cash sales \$40 000; Payments to Accounts Payable \$20 000; Wages \$12 000; Rent paid \$6 000; GST paid \$2 500. Its actual cash flows were: Cash sales \$35 000; Payments to Accounts Payable \$22 000; Wages \$12 500; Rent paid \$6 000; GST paid \$2 000. 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

Oakmere Supplies has lost its actual figures but still has this variance report for the month ended 31 January 2027: Sales revenue budget \$150 000, variance \$8 000 F; Cost of Sales budget \$90 000, variance \$5 000 U; Wages budget \$24 000, variance \$1 500 F; Advertising budget \$5 000, variance \$2 000 U. Rent expense (budget \$10 000) and Interest expense (budget \$3 000) 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

Riverbend Joinery budgeted a net profit of \$16 000 for the month ended 31 January 2027 from: Sales revenue \$132 000; Cost of Sales \$80 000; Wages \$21 000; Advertising \$5 000; Rent expense \$8 000; Interest expense \$2 000. Its actual results were: Sales revenue \$149 000; Cost of Sales \$92 000; Wages \$23 500; Advertising \$6 200; Rent expense \$8 000; Interest expense \$2 000. 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

Lakeview Interiors budgeted \$56 000 for wages but paid only \$49 000, a favourable expense variance, after leaving two showroom sales positions unfilled for the whole month; in the same period its sales were \$23 000 below budget, an unfavourable variance.

- Explain why the wages variance is labelled favourable.
- Discuss why this favourable wages variance may not actually be good news, linking it to the unfavourable sales variance.
- Discuss one limitation of variance analysis illustrated by this situation.

Question 15

Northpoint Motors budgeted these cash flows for the month ended 28 February 2027: Cash sales \$120 000; Receipts from Accounts Receivable \$50 000; Proceeds from sale of vehicle \$12 000; Payments to Accounts Payable \$70 000; Wages \$30 000; Purchase of equipment \$25 000; GST paid \$7 000. Its actual cash flows were: Cash sales \$128 000; Receipts from Accounts Receivable \$47 000; Proceeds from sale of vehicle \$14 000; Payments to Accounts Payable \$74 000; Wages \$29 000; Purchase of equipment \$25 000; GST paid \$7 500. Prepare a cash variance report and state the net cash flow variance with its F/U label.

Question 16

A review of Glenmore Cellars' budget against its actual Income Statement produced these line variances: Sales revenue \$9 000 F; Cost of Sales \$3 000 F; Interest expense \$200 F; Wages \$2 500 U; Advertising \$1 800 U; Rent

expense \$700 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

Summit Building Supplies budgeted a net profit of \$67 000 for the year ended 30 June 2026 from: Sales revenue \$480 000; Discount Revenue \$3 000; Cost of Sales \$288 000; Wages \$72 000; Rent expense \$30 000; Advertising \$15 000; Interest expense \$9 000; Discount Expense \$2 000. Its actual results were: Sales revenue \$505 000; Discount Revenue \$3 800; Cost of Sales \$310 000; Wages \$70 000; Rent expense \$30 000; Advertising \$18 000; Interest expense \$8 500; Discount Expense \$2 400. Prepare a net profit variance report and state the net profit variance with its F/U label.

Answers

1.
 - b. Net profit variance \$800 F. c. Cost of Sales (\$3 000 U)
2.
 - b. Net cash flow variance \$500 F
3.
 - a. Sales \$8 000 F; Cost of Sales \$6 000 U; Wages \$2 000 F; Discount Revenue \$300 U; Advertising no variance; Interest \$400 U. b. Total F \$10 000; total U \$6 700; net profit variance \$3 300 F
4.
 - b. Net profit variance \$500 U
5.
 - b. Net cash flow variance \$1 400 U; budgeted Bank at end \$32 000, actual Bank at end \$30 600
6. See solutions
7. Net profit variance \$2 400 F (budget \$32 000; actual \$34 400)
8. Net cash flow variance \$1 500 U (budget \$35 000; actual \$33 500)
9. Sales \$6 000 U; Discount Revenue \$500 F; Cost of Sales \$4 000 F; Wages \$3 000 U; Discount Expense \$300 F; Advertising no variance. Total F \$4 800; total U \$9 000; net profit variance \$4 200 U
10. Net profit variance \$4 400 U; largest unfavourable variance Cost of Sales \$13 000 U
11. Net cash flow variance \$7 000 U; closing Bank a Bank Overdraft of \$3 500 (a current liability)
12. Actual: Sales \$158 000; Cost of Sales \$95 000; Wages \$22 500; Advertising \$7 000. Budget net profit \$18 000; actual net profit \$20 500; net profit variance \$2 500 F
13. Net profit variance \$1 300 F (budget \$16 000; actual \$17 300)
14. See solutions
15. Net cash flow variance \$3 500 F (budget \$50 000; actual \$53 500)
16. Total F \$12 200; total U \$5 000; net profit variance \$7 200 F
17. See solutions
18. Net profit variance \$2 900 F (budget \$67 000; actual \$69 900)

Fully-worked solutions

Question 1

Variance Report —
Net Profit for the
month ended 30
September 2026

	Budget \$	Actual \$	Variance \$	F/U
Sales revenue	70 000	74 000	4 000	F
less Cost of Sales	42 000	45 000	3 000	U
Gross Profit	28 000	29 000	1 000	F
less Expenses				
Wages	12 000	11 500	500	F
Rent expense	5 000	5 000	—	—
Advertising	2 500	3 200	700	U
Total Expenses	19 500	19 700	200	U
Net Profit	8 500	9 300	800	F

- b. Net profit variance = actual \$9 300 – budget \$8 500 = **\$800 F**. Check: favourable \$4 500 (4 000 + 500) – unfavourable \$3 700 (3 000 + 700) = \$800 F. This also equals Gross Profit \$1 000 F – Total Expenses \$200 U.
- 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
Operating Activities				
Cash fees	55 000	58 000	3 000	F
Receipts from Accounts Receivable	20 000	18 500	1 500	U
Payments to Accounts Payable	(30 000)	(32 000)	2 000	U
Wages	(16 000)	(15 000)	1 000	F
GST paid	(3 500)	(3 500)	—	—
Net Cash Flows from Operating Activities	25 500	26 000	500	F
Net Increase in Cash	25 500	26 000	500	F

All five flows are day-to-day trading flows, so the report has an Operating Activities section only.

- Net cash flow variance = actual \$26 000 – budget \$25 500 = **\$500 F**. Check: favourable \$4 000 (3 000 + 1 000) – unfavourable \$3 500 (1 500 + 2 000) = \$500 F.
- 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

- Sales revenue **\$8 000 F** (revenue above budget); Cost of Sales **\$6 000 U** (expense above budget); Wages **\$2 000 F** (expense below budget); Discount Revenue **\$300 U** (revenue below budget); Advertising **no variance** (actual equals budget); Interest expense **\$400 U** (expense above budget).
- Total favourable = Sales \$8 000 + Wages \$2 000 = **\$10 000**. Total unfavourable = Cost of Sales \$6 000 + Discount Revenue \$300 + Interest \$400 = **\$6 700**. Net profit variance = \$10 000 – \$6 700 = **\$3 300 F**. (Confirmed directly: actual net profit \$18 000 – budgeted net profit \$14 700 = \$3 300.)
- 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	200 000	190 000	10 000	U
less Cost of Sales	120 000	110 000	10 000	F
Gross Profit	80 000	80 000	—	—
less Expenses				
Wages	34 000	36 000	2 000	U
Rent expense	15 000	15 000	—	—

Variance Report —
Net Profit for the
month ended 31

October 2026	Budget \$	Actual \$	Variance \$	F/U
Advertising	8 000	6 500	1 500	F
Interest expense	4 000	4 000	—	—
Total Expenses	61 000	61 500	500	U
Net Profit	19 000	18 500	500	U

- b. Net profit variance = actual \$18 500 – budget \$19 000 = **\$500 U**. Check: favourable \$11 500 (10 000 + 1 500) – unfavourable \$12 000 (10 000 + 2 000) = –\$500, i.e. \$500 U.
- c. Sales fell \$10 000 short of budget, so **fewer units were sold than planned**; because Cost of Sales moves with the number of units sold, it fell too (\$10 000 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. The classified report makes this plain: the two variances cancel exactly, so **Gross Profit shows no variance at all**, and the whole \$500 U result comes from the expense block.

Question 5

Variance Report —
Cash for the month
ended 31 October

2026	Budget \$	Actual \$	Variance \$	F/U
Operating Activities				
Cash sales	48 000	52 000	4 000	F
Receipts from Accounts Receivable	22 000	20 000	2 000	U
Payments to Accounts Payable	(26 000)	(28 000)	2 000	U
Wages	(14 000)	(14 000)	—	—
GST paid	(3 000)	(3 400)	400	U
Net Cash Flows from Operating Activities	27 000	26 600	400	U
Financing Activities				
Drawings	(5 000)	(6 000)	1 000	U
Net Cash Flows from Financing Activities	(5 000)	(6 000)	1 000	U
Net Increase in Cash	22 000	20 600	1 400	U
add Bank balance at start (1 October 2026)	10 000	10 000	—	—
Bank balance at end (31 October 2026)	32 000	30 600	1 400	U

Drawings are a dealing with the **owner**, so they are classified as **financing**, not operating.

- b. Net cash flow variance = actual \$20 600 – budget \$22 000 = **\$1 400 U**. Budgeted Bank at end **\$32 000**; actual Bank at end **\$30 600**.
- 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 over-time or adjusting shifts — so that actual wages are brought back into line with the budgeted amount.
- c. A variance report shows **what** happened but not **why**, so a manager could misread the result: it reports only financial figures and gives no reasons or non-financial context (such as market conditions or staff issues). It is also only as reliable as the budget it is measured against — if the budget was **unrealistic**, the variances measure the error in the plan rather than the true performance of the business.

Question 7

Variance Report —
Net Profit for the
month ended 30
November 2026

	Budget \$	Actual \$	Variance \$	F/U
Sales revenue	260 000	275 000	15 000	F
less Cost of Sales	156 000	168 000	12 000	U
Gross Profit	104 000	107 000	3 000	F
less Expenses				
Wages	40 000	39 000	1 000	F
Rent expense	18 000	18 000	—	—
Advertising	9 000	11 000	2 000	U
Interest expense	5 000	4 600	400	F
Total Expenses	72 000	72 600	600	U
Net Profit	32 000	34 400	2 400	F

Net profit variance = actual \$34 400 – budget \$32 000 = **\$2 400 F**. Check: favourable \$16 400 (15 000 + 1 000 + 400) – unfavourable \$14 000 (12 000 + 2 000) = \$2 400 F; equivalently Gross Profit \$3 000 F – Total Expenses \$600 U.

Question 8

Variance Report —
Cash for the month
ended 30
November 2026

	Budget \$	Actual \$	Variance \$	F/U
Operating Activities				
Cash sales	90 000	95 000	5 000	F
Receipts from Accounts Receivable	40 000	36 000	4 000	U
Payments to	(55 000)	(58 000)	3 000	U

Variance Report —
Cash for the month
ended 30

November 2026	Budget \$	Actual \$	Variance \$	F/U
Accounts Payable				
Wages	(24 000)	(23 000)	1 000	F
Rent paid	(10 000)	(10 000)	—	—
GST paid	(6 000)	(6 500)	500	U
Net Cash Flows from Operating Activities	35 000	33 500	1 500	U
Net Increase in Cash	35 000	33 500	1 500	U

Net cash flow variance = actual \$33 500 – budget \$35 000 = **\$1 500 U**. Check: favourable \$6 000 (5 000 + 1 000) – unfavourable \$7 500 (4 000 + 3 000 + 500) = –\$1 500, i.e. \$1 500 U.

Question 9

Item	Variance \$	F/U
Sales revenue	6 000	U
Discount Revenue	500	F
Cost of Sales	4 000	F
Wages	3 000	U
Discount Expense	300	F
Advertising	—	—

Total favourable = \$500 + \$4 000 + \$300 = **\$4 800**. Total unfavourable = \$6 000 + \$3 000 = **\$9 000**. Net profit variance = \$4 800 – \$9 000 = **\$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	320 000	332 000	12 000	F
less Cost of Sales	192 000	205 000	13 000	U
Gross Profit	128 000	127 000	1 000	U
less Expenses				
Wages	48 000	47 000	1 000	F
Rent expense	20 000	20 000	—	—
Advertising	10 000	14 000	4 000	U
Interest expense	6 000	6 400	400	U
Total Expenses	84 000	87 400	3 400	U
Net Profit	44 000	39 600	4 400	U

Net profit variance = actual \$39 600 – budget \$44 000 = **\$4 400 U** (favourable \$13 000 – unfavourable \$17 400). The largest unfavourable variance is **Cost of Sales, \$13 000 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 (\$13**

000) than the extra sales — so **Gross Profit itself was \$1 000 U** — and Advertising and Interest also ran over budget, adding a further \$3 400 U in the expense block.

Question 11

Variance Report —
Cash for the month
ended 31 December
2026

	Budget \$	Actual \$	Variance \$	F/U
Operating Activities				
Cash sales	40 000	35 000	5 000	U
Payments to Accounts Payable	(20 000)	(22 000)	2 000	U
Wages	(12 000)	(12 500)	500	U
Rent paid	(6 000)	(6 000)	—	—
GST paid	(2 500)	(2 000)	500	F
Net Cash Flows from Operating Activities	(500)	(7 500)	7 000	U
Net Decrease in Cash	(500)	(7 500)	7 000	U
add Bank balance at start (1 December 2026)	4 000	4 000	—	—
Bank balance at end (31 December 2026)	3 500	(3 500)	7 000	U

Every flow is operating, so the report has a single section. Both the budget and the actual show a net cash **deficit** (outflows exceed inflows), shown in brackets in the Budget and Actual columns; the variance column stays positive and is labelled U. Net cash flow variance = actual (\$7 500) – budget (\$500) = **\$7 000 U** (favourable \$500 – unfavourable \$7 500). The actual closing balance of –\$3 500 is reported as a **Bank Overdraft of \$3 500** — a current liability — whereas the budget had expected a positive Bank balance of \$3 500.

Question 12

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

Item	Budget \$	Variance \$	F/U	Actual \$
Sales revenue	150 000	8 000	F	158 000
Cost of Sales	90 000	5 000	U	95 000
Wages	24 000	1 500	F	22 500
Advertising	5 000	2 000	U	7 000
Rent expense	10 000	—	—	10 000
Interest expense	3 000	—	—	3 000

Budget net profit = \$150 000 – \$90 000 – \$24 000 – \$5 000 – \$10 000 – \$3 000 = **\$18 000**. Actual net profit = \$158 000 – \$95 000 – \$22 500 – \$7 000 – \$10 000 – \$3 000 = **\$20 500**. Net profit variance = \$20 500 – \$18 000 = **\$2 500 F** (favourable \$9 500 – unfavourable \$7 000). Read through the classified subtotals the same answer emerges: Gross

Profit \$60 000 → \$63 000 (\$3 000 F) and Total Expenses \$42 000 → \$42 500 (\$500 U), giving \$3 000 F – \$500 U = **\$2 500 F**.

Question 13

Variance Report —
Net Profit for the
month ended 31
January 2027

	Budget \$	Actual \$	Variance \$	F/U
Sales revenue	132 000	149 000	17 000	F
less Cost of Sales	80 000	92 000	12 000	U
Gross Profit	52 000	57 000	5 000	F
less Expenses				
Wages	21 000	23 500	2 500	U
Advertising	5 000	6 200	1 200	U
Rent expense	8 000	8 000	—	—
Interest expense	2 000	2 000	—	—
Total Expenses	36 000	39 700	3 700	U
Net Profit	16 000	17 300	1 300	F

Net profit variance = actual \$17 300 – budget \$16 000 = **\$1 300 F** (favourable \$17 000 – unfavourable \$15 700). Although the overall result is favourable, **every cost and expense that moved did so unfavourably** — Cost of Sales, Wages and Advertising all ran over budget, and Total Expenses alone were \$3 700 U. The favourable bottom line came entirely from the strong \$17 000 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

- The wages variance is favourable because Lakeview paid **\$7 000 less** than budgeted (\$56 000 – \$49 000) on an **expense**, and spending less than planned on an expense **increases net profit** — a favourable effect.
- The favourable wages variance may not be good news because wages buy **selling capacity**: the saving arose only because two showroom sales positions were left unfilled, so fewer staff were on hand to serve customers and close sales. In the same period sales fell **\$23 000 below** budget (unfavourable), so the \$7 000 saved on wages may well have **caused** the far larger \$23 000 shortfall in sales, leaving the business worse off overall — a “favourable” label on one line has hidden a damaging decision.
- This illustrates that variances must be read **together**, because items are interrelated: a variance report treats each line in isolation and labels it only by its effect on profit, so on its own it can make a harmful under-spend look like a positive result. It also shows **what** changed but not **why**, so the link between the unfilled positions and the sales fall must be investigated separately.

Question 15

Variance Report —
Cash for the month
ended 28 February
2027

	Budget \$	Actual \$	Variance \$	F/U
Operating Activities				
Cash sales	120 000	128 000	8 000	F
Receipts from Accounts Receivable	50 000	47 000	3 000	U
Payments to	(70 000)	(74 000)	4 000	U

Variance Report —
Cash for the month
ended 28 February
2027

	Budget \$	Actual \$	Variance \$	F/U
Accounts Payable				
Wages	(30 000)	(29 000)	1 000	F
GST paid	(7 000)	(7 500)	500	U
Net Cash Flows from Operating Activities	63 000	64 500	1 500	F
Investing Activities				
Purchase of equipment	(25 000)	(25 000)	—	—
Proceeds from sale of vehicle	12 000	14 000	2 000	F
Net Cash Flows from Investing Activities	(13 000)	(11 000)	2 000	F
Net Increase in Cash	50 000	53 500	3 500	F

The proceeds from selling the vehicle and the purchase of equipment are dealings in **non-current assets**, so both belong in **Investing Activities**, not with the trading flows.

Net cash flow variance = actual \$53 500 – budget \$50 000 = **\$3 500 F**. Check: favourable \$11 000 (8 000 + 2 000 + 1 000) – unfavourable \$7 500 (3 000 + 4 000 + 500) = \$3 500 F; equivalently Operating \$1 500 F + Investing \$2 000 F.

Question 16

Total favourable = \$9 000 + \$3 000 + \$200 = **\$12 200**. Total unfavourable = \$2 500 + \$1 800 + \$700 = **\$5 000**. Net profit variance = \$12 200 – \$5 000 = **\$7 200 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 \$7 200.

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 actual simply exceeds 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	480 000	505 000	25 000	F
less Cost of Sales	288 000	310 000	22 000	U
Gross Profit	192 000	195 000	3 000	F

Variance Report —
Net Profit for the
year ended 30 June
2026

	Budget \$	Actual \$	Variance \$	F/U
add Discount Revenue	3 000	3 800	800	F
less Expenses				
Wages	72 000	70 000	2 000	F
Rent expense	30 000	30 000	—	—
Advertising	15 000	18 000	3 000	U
Interest expense	9 000	8 500	500	F
Discount Expense	2 000	2 400	400	U
Total Expenses	128 000	128 900	900	U
Net Profit	67 000	69 900	2 900	F

Discount Revenue is revenue earned other than from selling inventory, so in the classified layout it is **added after Gross Profit** rather than included in Sales; Discount Expense sits with the other expenses.

Net profit variance = actual \$69 900 – budget \$67 000 = **\$2 900 F**. Check: favourable \$28 300 (25 000 + 800 + 2 000 + 500) – unfavourable \$25 400 (22 000 + 3 000 + 400) = \$2 900 F; equivalently Gross Profit \$3 000 F + Discount Revenue \$800 F – Total Expenses \$900 U.