

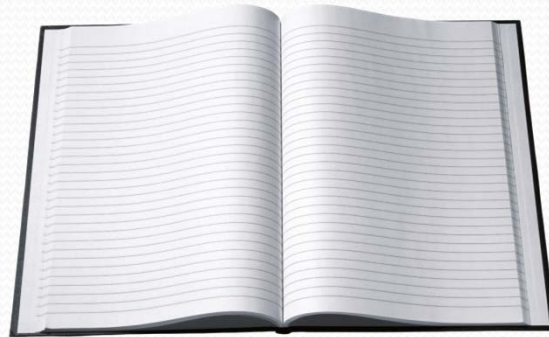
Week 5 – Chapter 7

FINANCIAL BUDGETS



FNSACC503A
Manage Budgets and Forecasts

**By the end of this lesson,
you will be able to...**



Prepare a budgeted **INCOME STATEMENT**,
BALANCE SHEET & **CASH FLOW STATEMENT**
for a merchandising firm.

Overview

1. Types of budgeted financial statements.
2. Budgeted income statement – FORMAT, PREPARATION, EXAMPLE
3. Budgeted balance sheet – FORMAT, PREPARATION, EXAMPLE
4. Budgeted cash flow statement – CLASSIFICATION OF CASH INFLOWS & OUTFLOWS, EXAMPLE

Budgeted Financial Statements

Include;

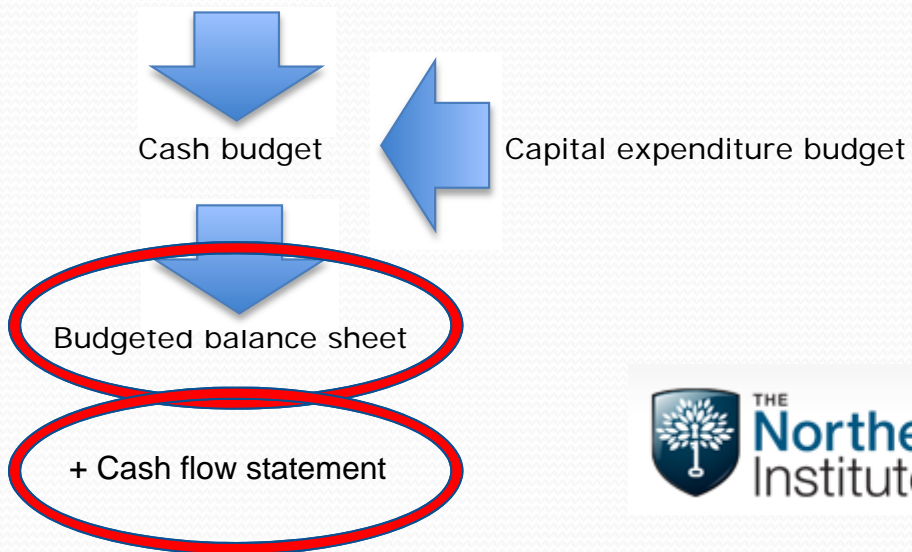
1. **Income statement** (statement of financial performance) *(like a video)*
2. **Balance sheet** (statement of financial position) *(like a photo)*
3. **Cash flow statement**

These budgets summarise the forecasts made in all the other budgets which we have learnt how to prepare in this unit so far.

MASTER BUDGETS (chapter 1 : budgeting fundamentals)

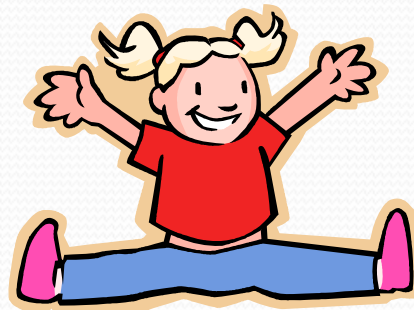
Budget income statement

MERCHANTISING	PROFESSIONAL SERVICES*	MANUFACTURING
Budget income statement		
Sales	Fees income	Sales
Purchases >> COGS	Professional and support labour costs e.g. dentist + dental assistant	Production + Ending Inventories * direct materials (usage + purchases) * direct labour * factory overhead >> COGS
Marketing expenses	Marketing expenses	Marketing expenses
Admin. expenses	Admin. expenses	Admin. expenses
Financial expenses	Financial expenses	Financial expenses



* sells expertise and knowledge

BUDGETED INCOME STATEMENT



Budgeted income statement is a summary of the following budgets...

- Sales and/or Service fee income
- Purchases → COGS
- Operating expenses
 - Marketing
 - Administration
 - Financial (incl. discounts allowed or received + bad debts)

**This budget is not affected by
GST accounts.**

FORMAT :

budgeted income statement (merchandising organisation)

Sales

Less: COGS

Gross profit

Add: Interest income

Operating income

Less: Operating expenses

- Marketing
- Administration
- Financial

Net profit

PREPARATION :

budgeted income statement (merchandising organisation)

Step 1: Prepare the sales and/or service fee income budget

Step 2: Prepare the purchases budget followed by the COGS budget

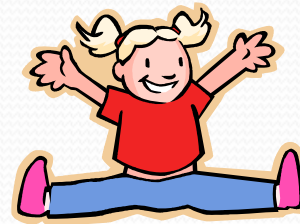
NOTE:

Information from the purchases budget will be used later on to work out cash payments to Accounts Payable for credit purchases

Step 3: Prepare the operating expenses budgets

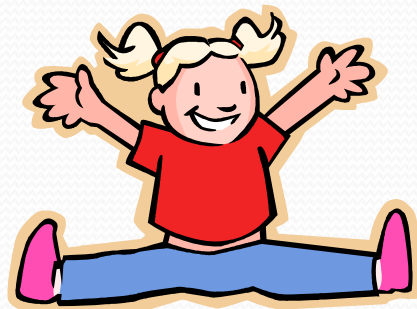
Step 4: Put all these budgets together to create a budgeted income statement

Budgeted income statement



Please refer to PART 1 of the
WORKED EXAMPLE

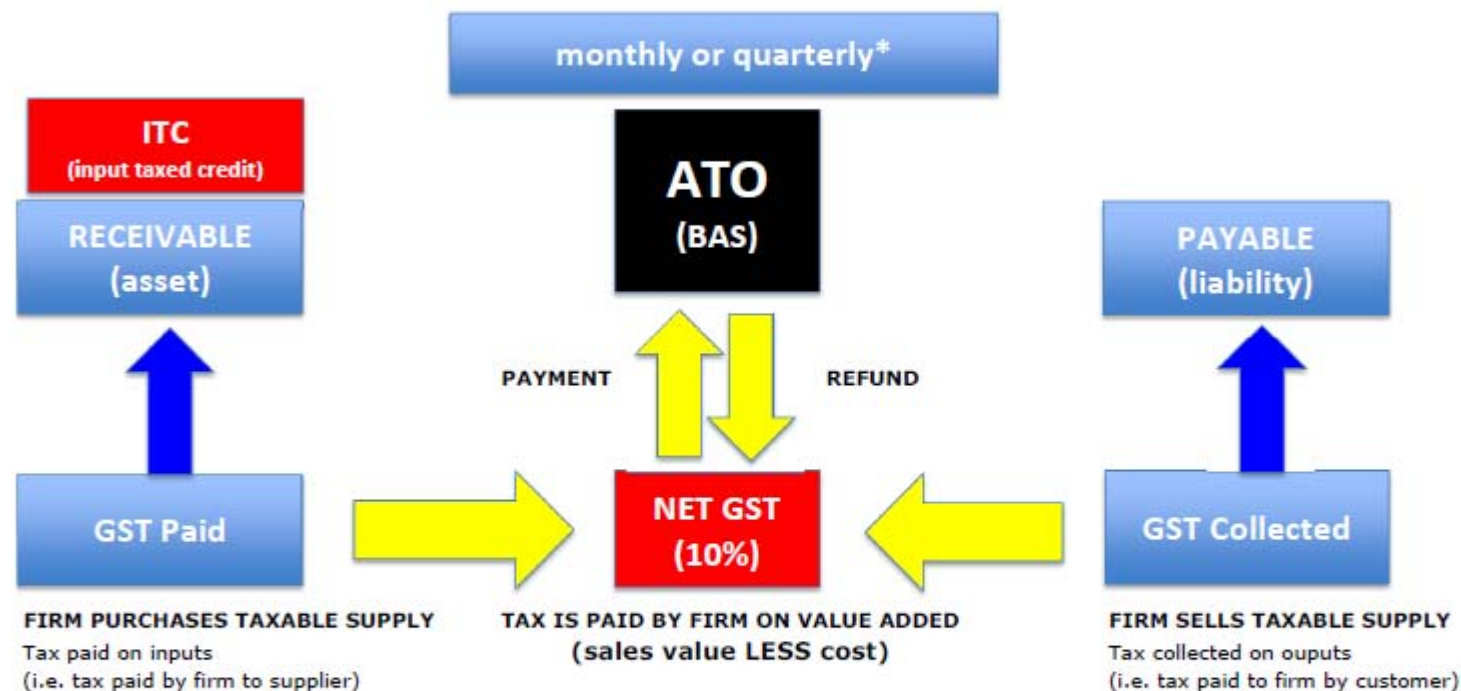
BUDGETED BALANCE SHEET



Budgeted balance sheet...

- This budget is prepared using the **asset**, **liability** and **owner's equity** accounts.
- If GST payable (on GST collected) is $>$ GST input tax credits (on GST paid), the net GST payable is shown as a current liability.
- If GST payable (on GST collected) is $<$ GST input tax credits (on GST paid), the net GST input tax credit is shown as a current asset.
- **PLEASE REFER GST OVERVIEW ON NEXT SLIDE...**

GST Overview (from previous lesson)



- Notes:**
- (1) Firms not registered for GST cannot claim a credit for tax paid on their inputs or collect GST on their sales. Instead they can claim the full cost of their business purchases (including any GST) as a tax deduction on their tax return.
 - (2) Most goods and services sold are subject to GST.

*Amounts are remitted to or refunded by the ATO either monthly or quarterly depending on the firm's turnover or the firm can elect to pay monthly (there is an annual option for small businesses)

* In this unit we are going to assume that all businesses are registered for GST and that they pay their liability monthly.

FORMAT : budgeted balance sheet

Owner's funds:

Capital

Add: Net profit (from budgeted income statement)

Less: Drawings

= Total owner's funds **xx**

Represented by:

Current assets (incl. closing bank balance from cash budget)

Less: Current liabilities

= Working capital

Plus: Non-current assets

Less: Non-current liabilities

= Net assets **xx**

PREPARATION :

budgeted balance sheet

You need to prepare the **CASH BUDGET** first in order to work out the closing bank balance as at the end of the period...(revision from last week)

Step 1: Prepare the 'collections from AR schedule'

Step 2: Prepare the 'payments to AP schedule'

Step 3: Work out net GST payable/refundable (if required)

Step 4: Prepare the cash budget

* * * * *

Step 4: Calculate the closing balances for all other remaining asset and liability accounts e.g.:

- * Accounts Receivable
- * Accounts Payable
- * Accumulated Depreciation

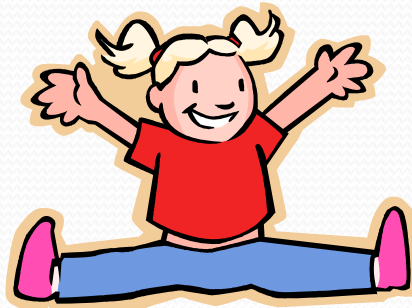
Step 5: Use all this information to prepare a budgeted balance sheet

Budgeted balance sheet



Please refer to PART 2 of the
WORKED EXAMPLE

BUDGETED CASH FLOW STATEMENT



FORMAT : budgeted cash flow statement (AASB 107)

Cash flows from operating activities:

Net cash inflow/(outflow) from operating activities **XX**

Cash flows from investing activities:

Net cash inflow/(outflow) from investing activities **XX**

Cash flows from financing activities:

Net cash inflow/(outflow) from financing activities **XX**

Net increase/(decrease) in cash held **XX**

Add: Cash at beginning of period **XX**

(**opening bank balance from cash budget**)

Cash at end of period (closing bank balance from cash budget) **XX**

Budgeted cash flow statement

Divided into 3 main categories...

1. Operating activities
2. Investing activities
3. Financing activities



Classification of cash flows

OPERATING ACTIVITIES

→ activities that relate to the **provision of goods and services**.

CASH IN FROM	CASH OUT FROM
Sale of goods & services	Payments to employees
Interest received	Payments to suppliers of stock
Dividends received	Interest paid
	Payments to Gov't for taxes
	Payments for all other expenses

Classification of cash flows

INVESTING ACTIVITIES

→ activities that relate to the **acquisition and disposal of non-current assets**.

CASH IN FROM	CASH OUT FROM
Collection of loans	Giving loans
Sale of non-current assets	Purchase of non-current assets

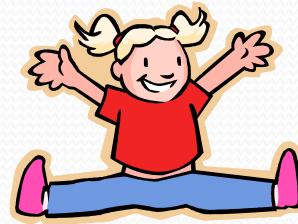
Classification of cash flows

FINANCING ACTIVITIES

→ activities that relate to **changes to the financial structure of the business**

CASH IN FROM	CASH OUT FROM
Sale of shares	Buy back shares
Borrowings	Paying dividends
	Repayment of debt

Budgeted cash flow statement



Please refer to PART 3 of the
WORKED EXAMPLE

This week's homework

- Read Chapter 7 – Financial Budgets
- Complete homework questions (chapter 7)
(ref. STUDENT ONLINE STUDY GUIDE)



**You are now ready to start the
next lesson on:**

Chapter 5

Operating Budgets

(manufacturing)

