Management Accounting

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Practical Class #20

01
Exercise 56

The Orçamenta Bem Company

Problem 56
Cash Budget

- Sales Collection Period: 1 month

Sales Jan → received in Feb
Sales Feb → received in March

- Suppliers Payment Period: 2 months

Purchases Jan → paid in March

- VAT to State Payment Period: 2 months

VAT to state Jan → paid in March

	JAN	FEB	MARCH
1) Receipts			
Sales	8 610€	9 225€	9 532,5€
2) Payments			
- Purchases	1 599€	2 460€	2 706€
- VAT to State	1 081€	1 150€	1 219€
- Other Payments	6 100€	6 650€	6 030€
Total 2)	8 780€	10 260€	9955€
Cash Balance (1-2)	**-170€**	**-1 035€**	**-422,5€**

Problem 56 Financial Budget

- Opening cash Jan: 1 750€
- Closing cash: 1 500€

- If **sources < uses** → loan (int rate: 1%); sell 1st fin. Investment in the case there is one
- If **sources > uses** → loan reimbursement and then financial investment (int rate: 0,5%)
- Interests are paid in the following month

1) Sources of funds	**JAN**	**FEB**	**MARCH**
Op. Cash	1 750€	1 500€	1 500€
Positive Cash Balance	-------	-------	-------
ST Loan	-------	954,6€	432,046€
Int. received	-------	0,4€	-------
Sales Fin. Investment	-------	80€	-------
TOTAL SOURCES	1 750€	2 535€	1 932,046€
2) Uses of Funds			
Cl. Cash Balance	1 500€	1 500€	1 500€
Negative Cash Balance	170€	1 035€	422,5€
Interest- ST Loan	-------	-------	9,546€
Reimbursement- ST Loan	-------	-------	-------
Financial Investment	80€	-------	-------
TOTAL USES	1 750€	2 535€	1 932,046€

Problem 56- Question 3)

Loan and Financial Investment

	JAN	FEB	MARCH
Loan	0 €	954,6€	(954,6+432,046) = 1 386,646€
Financial Investment	80€	0€	0€

Financial Costs and Financial Revenues on the P&L

	JAN	FEB	MARCH
Financial Costs	0 €	1% * 954,6€ =9,546€	1%*1 386,646€= 13,86646€
Financial Revenues	0,5%*80€ = 0,4€	0€	0€

01
Theoretical Recap

Variance Analysis

Planning & Control- Variance Analysis

Variance Analysis: The process of computing and analysing the **differences between the actual and planned** (i.e. budgeted) performance.

Using variance analysis, management can:

- identify **deviations from targets**
- investigate the **reasons for these differences**,
- take **corrective actions** if necessary.

→ Variances can be:

- **Favourable**, if we make **higher profits than expected**
- **Unfavourable**, if we make **lower profits than expected**

	Revenues	Costs
Favourable	Actual > Expected	Actual < Expected
Unfavourable	Actual < Expected	Actual > Expected
	Higher, Better	Lower, Better

Planning & Control- Variance Analysis

Three reasons justify variances between budgeted results and actual results:

Sales Volume

E.g.: It allows us to understand what happens to the profit when our sales volume increases

Price

E.g.: It allows us to understand what happens to the profit if the purchasing team buys DM at a higher price

Efficiency/Usage

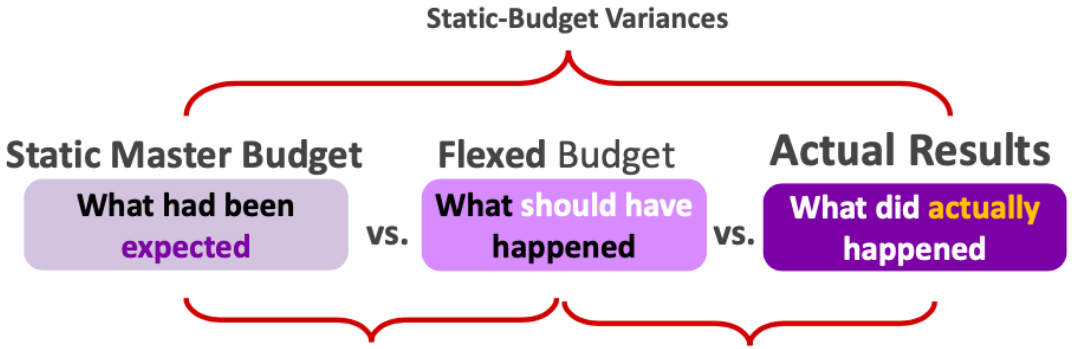
E.g.: It allows us to understand what happens to the profit if the production team improves efficiency

As the **actual volume** can be different from the **budgeted volume**, it is not fair to compare our **master budgeted** to the **actual results** (we cannot get any relevant information about per unit values).

Planning & Control- Variance Analysis

Solution → FLEXIBLE BUDGET
An estimate of **what revenues and costs should have been, given the actual level of activity for the period.**

→ Flexible Budget is a budget that takes into account the **budgeted assumptions** (price and efficiency) but the **actual sales volume**



Need to distinguish (isolate) two sources of variances:

Activity-Level Variances:
Variances are due to **volume changes** only
(= budget revision variance)

Flexed-Budget Variances
Difference due to **variances in resource prices & efficiency**
(= control variance)

02
Exercise 64

Táxis PéLigeiro Company

Problem 64- Budgeted P&L

Info:

- Km sold: 40 000kms
- Selling price: 1€/Km
- 1 km sold= 2,5km driven
- 10 drivers
- Wages per Taxi Driver 1.000 €/month
- Fuel 0,08 €/Km.
- Variable overhead 0,05 €/ Km.
- Fixed overhead 9.000 €/ month

	Budgeted P&L
	(40 000 * 1€)
Sales	40 000€
	(2,5*40 000*0,08€)
- Fuel	-8 000€
	(2,5*40 000*0,05€)
- Variable OH	-5 000€
CM	**27 000€**
	(10*1 000€)
- Wages	-10 000€
- Fixed OH	-9 000€
Operating Profit	**8 000€**

Problem 64- Actual P&L

Info:

- Revenues= 36 100€
- Kms sold: 38 000
- Total kms driven: 105 000
- Total Wages: 9 600€
- Fuel: 8 820 €
- Variable overhead: 5 040 €
- Fixed overhead: 9 300 €

	Actual P&L
	(38 000 * 0,95€)
Sales	36 100€
	(105 000*0,084€)
- Fuel	-8 820€
	(105 000*0,048€)
- Variable OH	-5 040€
CM	**22 240€**
	(9*1 066,(6)€)
- Wages	-9 600€
- Fixed OH	-9 300€
Operating Profit	**3 340€**

	Actual P&L	Flexible P&L	Static P&L
	(38 000 * 0,95€)	(38 000 * 1€)	(40 000*1€)
Sales	36 100€	38 000€	40 000€
	(105 000* 0,084€)	(2,5*38 000*0,08€)	(2,5*40 000*0,08€)
- Fuel	-8 820€	-7 600€	-8 000€
	(105 000*0,048€)	(2,5*38 000*0,05€)	(2,5*40 000*0,05€)
- Variable OH	-5 040€	-4 750€	-5 000€
CM	**22 240€**	**25 650€**	**27 000€**
	(9 * 1066,(6)€)		(10*1 000€)
- Wages	-9 600€	-10 000€	-10 000€
- Fixed OH	-9 300€	-9 000€	-9 000€
Operating Profit	**3 340€**	**6 650€**	**8 000€**