





(f) [AO2] 8 [AO3] 6

AO2: Eight marks for cash received from Alpha, Beta, Celta, August and totals for each month.

AO3: Six marks for calculation of cash received from Celta in September and Delta for each month.

<b>Cash Budget (extract)</b>							
<b>Cash Received (£)</b>	July		August		September		
Alpha	0		195000		195000	AO2(1o/f) both	
Beta	34000	AO2(1)both	234000		234000	AO2(1o/f) both	
Gamma	0	AO2(1)	151000	AO2(1)	175500	AO3(3o/f) [W1]	
Delta	14500	AO3(1)	214500	AO3(1o/f)	214500	AO3(1o/f)	
	48500	AO2(1o/f)	794500	AO2(1o/f)	819000	AO2(1o/f)	
							<b>14 marks</b>

[W1] Gamma - cash received in September

Three month sales (3 x 9000 x £19.50) = 526 500

Less credit limit (200 000)

= 326 500 AO3 (1)

Less payments to date (151 000) AO3 (1o/f)

= Amount that must be paid 175 500 AO3 (1o/f)

(g) [AO1] 1 [AO2] 1 [AO3] 4 [AO4] 6

**FOR - Budgets as a management tool for forecasting, planning and control.**

Preparing a budget ensures management forecast and focus on future possibilities and likely outcomes. For example, PH plc may focus on the level of sales and expected sales revenues.

Some budgets are under the direct control of management. This will mean that management can accurately forecast the likely figures. For example, PH plc has forecast total sales to be 42 000 cubic litres per month. The company will have to plan to ensure it has sufficient capacity to produce this level of output.

Some costs are under management control, for example rate paid to purchase the inputs.

Budgets allow a business to forecast how a level of costs impacts on profit, for example direct labour. This may result in management deciding on an appropriate level of pay rise. Another example could be PH plc ensuring the rise in input costs are taken into account when planning the future price setting of the acid.

Variances can be analysed, and remedial action taken. For example, PH plc may not be happy with the forecast level of sales. This may result in a marketing campaign to boost sales.

Budgets may act as a yardstick against which performance may be measured. This helps senior management in control of other staff of the company. For example, the Production Department has to meet a production target of 44 000 cubic litres of acid in the month of July.

Budgets ensure that different departments are co-ordinated, integrated and controlled. For example, the purchasing, production, and logistics department of PH plc must be co-ordinated to ensure the smooth running of the company.

**AGAINST - Budgets as a management tool for forecasting, planning and control.**

Forecasting may not be accurate. For example, sales for PH plc could be affected if one of the four customers, e.g., Alpha plc, goes out of business. This would result in sales not being made. This is out of the control of PH plc.

Forecasts may be unrealistic. For example, production targets for PH plc may be set too high and may not be met. This could result in contracts to supply not being met.

Some costs are out of management control. For example, PH plc may not be able to control the price of water or other inputs. This means that management can only make an informed guess when preparing figures.

Some figures or costs may not change each month or year. Therefore, drawing up budgets is a waste of time and money and does not help planning or control. For example, the production or sales figures for PH plc may stay the same each year.

## Conclusion

Budgets are a useful management tool for forecasting, planning and control.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1- 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

12 marks

Total for Question 1 = 55 mark

Question Number	Answer	Mark
2 (a)	AO1 (5) AO1 Five marks for a correct row for each continent	(5)
<b>Sales Budget (number of cars)</b>	<b>October</b>	<b>November</b>
Asia	12 000	12 000
Europe	2 000	2 200
America	6 000	5 100
Australia	4 000	1 200
<b>Total Sales</b>	<b>24 000</b>	<b>20 500</b>

Question Number	Answer	Mark
2 (b)(i)	AO1 (1), AO2 (6) AO2 Six marks for each full row for each continent, but two marks for Europe AO1 One mark for totals for all months	(7)
<b>Production Budget (number of cars)</b>	<b>August</b>	<b>September</b>
Asia		12 000
Europe	2 000	2 200
America		6 000
Australia		4 000
Inventory		500
<b>Total Production</b>	<b>2 000</b>	<b>12 200</b>

Question Number	Answer	Mark
2 (b)(ii)	AO1 (3) AO1: One mark for every month for production, and two marks for total row	(3)
<b>Inventory Budget (number of cars)</b>		
	October	November
From production	500	500
Total	500	1 000

Question Number	Answer	Mark
2 (c)	AO2 (5) AO2: Five marks each monthly total	(5)
<b>Reworking budget (£)</b>		
	August	September
Production	100	610
Cost per car	£19.00	£19.00
Total cost	£1,900	£11,590

Question Number	Answer	Mark
2 (d)	AO1(3), AO2 (7) AO1: Three marks for cost row, and total purchases AO2: Seven marks for all other calculations in purchases budget	(10)
<b>Purchases Budget (£)</b>		
	July	August
Cost	£2,150	£2,150
Advance Purchases	200	1 220
Amount	£430,000	£2,623,000
Same month purchases	£3,870,000	£23,607,000
Total purchases	£430,000	£6,493,000

Question Number	Answer	Mark
2 (e)	AO1(4), AO2 (3), AO3 (6) AO1: Four marks for Option 3 total and Total Cash Received row AO2: Three marks for Option 2 row, and Option 3 monthly totals AO3: Six marks for Option 1 row, and Option 3 deposits row	(13)
<b>Cash Received Budget</b>		
	October	November
Sales	4000	1200
Option 1	£15,840,000	£4,752,000
Option 2	£140,000	£42,000
Option 3 deposits	£990,000	£297,000
Option 3 monthly	£0	£300,000
Total Option 3	£990,000	£597,000
Total Cash Received	£16,970,000	£5,391,000

Question Number	Answer	Mark
2 (f)	<p data-bbox="470 159 1050 197">AO1(1) , AO2(1), AO3(4), AO4 (6)</p> <p data-bbox="470 219 600 257"><u>Option 1</u></p> <p data-bbox="470 280 647 318">Advantages</p> <ul data-bbox="518 324 1225 430" style="list-style-type: none"> <li data-bbox="518 324 1225 394">• Brings in a large amount of cash on the day of the sale.</li> <li data-bbox="518 394 1066 430">• No need to wait for any payment.</li> </ul> <p data-bbox="470 452 691 490">Disadvantages</p> <ul data-bbox="518 497 1225 669" style="list-style-type: none"> <li data-bbox="518 497 1225 602">• May not be helpful in generating sales volume, as many customers cannot afford the £9 900.</li> <li data-bbox="518 602 1225 669">• The total amount of cash from a sale is less than option 3.</li> </ul> <p data-bbox="470 728 600 766"><u>Option 2</u></p> <p data-bbox="470 788 647 826">Advantages</p> <ul data-bbox="518 833 1209 938" style="list-style-type: none"> <li data-bbox="518 833 1209 938">• May be helpful in generating sales volume, as many customers can afford the £100 to put down.</li> </ul> <p data-bbox="470 960 691 999">Disadvantages</p> <ul data-bbox="518 1005 1230 1431" style="list-style-type: none"> <li data-bbox="518 1005 1230 1146">• Does not bring in a large amount of cash on the day of the sale. Company has to wait 18 months for nearly all of the payment, which only totals £9 900. No interest is charged.</li> <li data-bbox="518 1146 1230 1357">• It is possible that some of the debts will turn bad before payment is made. If the car has to be repossessed in 18 months time, it will have depreciated in value by then, and the amount owing may not be fully recovered.</li> <li data-bbox="518 1357 1225 1431">• The total amount of cash from a sale is less than option 3.</li> </ul> <p data-bbox="470 1453 600 1491"><u>Option 3</u></p> <p data-bbox="470 1514 647 1552">Advantages</p> <ul data-bbox="518 1559 1225 1879" style="list-style-type: none"> <li data-bbox="518 1559 1225 1664">• May be helpful in generating sales volume, as many customers can afford the deposit of £990.</li> <li data-bbox="518 1664 1225 1702">• Brings in some cash on the day of the sale.</li> <li data-bbox="518 1702 1225 1879">• The total amount received from each customer is the most using this option ie £11 790. This is £1890 more than the other two options. This is equal to about 6% interest.</li> </ul>	(12)

	<p>Disadvantages</p> <ul style="list-style-type: none"> <li>• Does not bring in a large amount of cash on the day of the sale.</li> <li>• Company has to wait for payment over 36 months.</li> </ul> <p><u>Conclusion</u></p> <p>Option 3 brings in the most cash per sale, although company must wait 3 years to collect all of it.</p> <p>It may be argued that option 1 is the best, as company receive cash on the day of the sale and as 40% of customers use it.</p>	
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Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes informed recommendations and decision(s).