Source B for Question 2

AG plc uses a system of budgetary control.

The company prepared the following budgets for periods ending March 2026.

1   Sales budget (all on credit)

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November	96 000
December	88 000
January	102 000
February	100 000
March	92 000

2   Trade receivables budget

	January $	February $	March $
Balance b/f	164 800	172 400	181 600
Sales	102 000	100 000	92 000
	266 800	272 400	273 600
Receipts – one month after sale	(17 600)	(20 400)	(20 000)
Receipts – two months after sale	(76 800)	(70 400)	(81 600)
Balance c/f	172 400	181 600	172 000

3   Budgeted statement of financial position at 31 March 2026

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Non-current assets	426 000
Current assets	
Inventory	91 000
Trade receivables	172 000
Total assets	689 000
Equity	
Share capital	500 000
Retained earnings	77 320
Current liabilities	
Bank overdraft	22 180
Trade payables	89 500
Total equity and liabilities	689 000

2 **Read Source B in the insert.**

(a) State how a budget may be:

(i) a motivating influence for staff

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.... [1]

(ii) a demotivating influence for staff.

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.... [1]

(b) Calculate the percentage of credit customers who pay in the month following sale.

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.... [1]

Additional information

The directors believe that too much cash is tied up in trade receivables and wish to see the credit customers pay sooner.

They would like to see the effect of offering customers a 10% cash discount on sales made after 1 January 2026 if payment is received in the month after sale.

They think that 80% of customers will then pay in the month after sale and receive the discount, with the remainder paying in the month after that.

(c) Prepare a revised trade receivables budget for February and March based on the directors' assumptions about the discount.

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(d) Prepare a revised budgeted statement of financial position at 31 March 2026 based on the directors' assumptions about the discount.

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(e) State **three** reasons why the company might find it useful to prepare its budgets using spreadsheets rather than manually.

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[3]

[2]

Question	Answer	Marks
2(a)(i)	**State how a budget may be:** **a motivating influence for staff** If staff are involved in the setting of the budgets they may be motivated **(1).** **Accept other valid responses**	1
2(a)(ii)	**State how a budget may be:** **a demotivating influence for staff.** If the budgets are imposed on staff they may be demotivated **(1).** **Accept other valid responses**	1
2(b)	**Calculate the percentage of credit customers who pay in the month following sale.** 20% **(1)**	1
2(c)	**Prepare a revised trade receivables budget for February and March based on the directors' assumptions about the discount.**	6

2(c)

	February $		March $	
Balance b/f	172 400	*	120 400	
Sales	<u>100 000</u>		<u>92 000</u>	
	272 400		212 400	
Receipts – one month after sale	73 440	**(1)**	72 000	**(1)**
Discount	8 160	**(1)**	8 000	**(1)**
Receipts – two months after sale	<u>70 400</u>	*(1)	<u>20 400</u>	
Balance c/f	<u>120 400</u>		<u>112 000</u>	(1)OF

*(1) for both items unaffected as pre-change

Question	Answer	Marks
2(d)	**Prepare a revised budgeted statement of financial position at 31 March 2026 based on the directors' assumptions about the discount.**	**4**

	$	
Non-current assets	426 000	
Current assets		
Inventory	91 000	
Trade receivables	112 000	**(1)OF**
Bank (-22180+43840)	21 660	**(1)OF**
Total assets	650 660	
Equity		
Share capital	500 000	
Retained earnings (77320 – 16160)	61 160	**(1)OF**
Current liabilities		
Trade payables	89 500	
Total equity and liabilities	650 660	**(1) if both totals agree**

Question	Answer	Marks
2(e)	**State three reasons why the company might find it useful to prepare its budgets using spreadsheets rather than manually.** Arithmetical errors should be avoided. **(1)** Speed of calculation will be improved. **(1)** There is automatic recalculation if one variable is changed. **(1)** Security can be enhanced with passwords. **(1)** Multiple user applications may be available. **(1)** 'Sort' or 'select' functions may be useful. **(1)** Enhanced presentation. **(1)** **Max 3** **Accept other valid responses**	**3**
2(f)	**State two advantages of using variance analysis.** Measures the deviation from budgeted costs and revenues **(1)** Identify reasons / causes of deviations **(1)** Leads to improvements in future plans / take remedial action **(1)** **Max 2** **Accept other valid responses**	**2**