PROJECTED INCOME STATEMENT

27 SEPTEMBER 2013 09:00 – 10:00

Checklist

Make sure you know how to:

- Distinguish between a cash budged and projected income statement:
  - Projected income statement looks at future income vs. future expenses
  - Will there be a projected profit or loss?
  - Cash budgets
  - Cash budget looks at future receipts vs. future payments
  - Will there be a cash surplus or shortfall?
  - Cash budget will not include non-cash items such as depreciation
- Compare actual results to budgeted figures
- Give advice regarding control measures for over/under budget figures

Questions

Question 1

(Adapted from Nov 2012, Paper 1, Question 6)

The Happy Holiday Shop is owned by Jim Jambo. You are provided with extracts from the Projected Income Statement which Jim prepared for the three months ending

31 December 2012. He has included a column for the actual expenses that he has incurred in October.

REQUIRED:

1.1 Explain why it is important for Jim to prepare a Projected Income Statement. (2)

1.2 Calculate the percentage increase in sales he expects in December. Explain why he has budgeted for this increase. (4)

1.3 Mark-up: During October a competitor opened a shop up in the same area. Jim decided to adjust his mark-up percentage immediately to counter the new competitor.

- Calculate the mark-up percentage he actually achieved in October. (3)
- Explain whether or not it was a good idea to change the mark-up percentage from its original target. (3)

1.4 Calculate the following figures in the Projected Income Statement:

- Rent income for November 2012 (Refer to Additional Information 1.)
- Advertising for December 2012 (Refer to Additional Information 2.)
- Interest expense for November 2012 (Refer to Additional Information 1.) (10)

1.5 Refer to the actual and budgeted figures for October 2012.

- Identify the THREE overhead expenses that have been poorly controlled by Jim. Quote figures to support your answer. (6)
- What advice would you offer Jim to improve his internal control over these overhead expenses? Explain. (2)

1.6 Refer to Additional Information 3. Jim is of the opinion that he could benefit financially if he accepts Samuel's offer. State THREE points that would have a positive effect on his Projected Income Statement for January 2013 if he accepts the offer. Give figures or information from the question to support your answer. (6)

1.7 Jim is also conscious of the fact that there are negative points if he accepts the offer. State TWO points that Jim should consider before finalising his decision to sell the property. Explain. (4)

INFORMATION:

HAPPY HOLIDAY SHOP

EXTRACT FROM THE PROJECTED INCOME STATEMENT

FOR THE THREE MONTHS ENDED 31 DECEMBER 2012

	BUDGET OCT. 2012	ACTUAL OCT. 2012	BUDGET NOV. 2012	BUDGET DEC. 2012
Sales	R 590 000	R 710 500	R 590 000	R 708 000
Cost of sales	368 750	490 000	368 750	442 500
Gross profit	221 250	220 500	221 250	265 500
Rent income	5 200	5 200	?	?
Salaries	?	?	?	?
Maintenance of property	4 000	7 000	4 000	4 000
Municipal rates on property	1 000	1 000	1 000	1 000
Telephone	1 500	1 200	1 500	1 500
Water and electricity	1 200	5 600	1 200	1 200
Advertising	4 000	4 000	4 000	?
Stationery	?	?	?	?
Trading stock deficit	8 000	12 300	8 000	8 000
Interest expense (15% p.a.)	(12 500)	(12 500)	?	(11 250)

ADDITIONAL INFORMATION:

1. Jim bought the land and buildings for R1,2 million in 2011.
   - He rents out an unused portion of this property to a tenant. The rent will increase by 5% on 1 November 2012.
   - Jim had received a loan from his brother to pay for the land and buildings.
     The balance of this loan was R1 million on 1 October 2012. The interest rate is 15% p.a. and the loan is reduced by R50 000 per month on the last day of the month. Interest is paid monthly and is not capitalised.

2. Currently Jim places five advertisements per month in the local newspaper.
   He plans to increase this to eight advertisements in December. The rate per advertisement will increase by 10% on 1 December 2012.

3. Jim would like to improve his projected net income and is considering a proposal from a local businessman, Samuel Davids.

Samuel is prepared to purchase all the land and buildings of the business from Jim for R1,5 million during December 2012 and rent it to him for R10 500 per month.

Jim is interested in this offer as he knows that this will enable him to repay the loan from his brother in full on 1 January 2013 (the loan on this date will be R850 000). He will also be able to invest the surplus funds in a fixed deposit at 6% p.a.