CHAPTER 12 Summary

A Projected Income Statement is prepared to estimate future business revenues, cost of sales, gross profit, operating expenses, non-operating expenses and net profit. This statement is utilised to project the financial future of the business.

Projecting sales

When calculating, the following must be taken into account:

- inflation rate
- what profit is to be made
- will the goods be sold for cash or on credit
- the expected costs that are involved.

Projecting cost of sales

- Consider at what price the goods will be bought.
- Consider the quality of the goods.

Projecting expenses

- What will this be?
- Will the income received be able to pay these expenses while making a profit?

Projecting income

- What other income can be received?

Projecting profit

- How much profit will be made to ensure the business will continue?

Cash Budgets

- This reflects the inflow (receipts) of cash and outflow (expenses) that a business incurs.
- The aim is to calculate if there is enough cash in the bank for the business to operate.

Variances

- The differences between actual and budgeted amounts.
- If variances exist, the business should decide what action to take.