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| **QUESTION 5: CASH BUDGET AND PROJECTED INCOME STATEMENT**  **(50 marks; 30 minutes)** |  |  |

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| 5.1 | **BRUCE TRADERS**  Benny Bruce owns Bruce Traders. You are provided with information for two months.  **REQUIRED:** |  |  |

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|  | Complete the Cash Budget for November and December 2015. Certain figures have been entered for you. |  | (25) |

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|  | **INFORMATION:** |  |  |

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|  | **A.** | Extract from the Projected Income Statement: |  |  |

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|  | **NOVEMBER 2015** | **DECEMBER 2015** |
| Sales | R1 050 000 | R997 500 |
| Cost of sales | 600 000 | 570 000 |
| Commission income | 7 000 | 8 000 |
| Sundry expenses | 22 500 | **?** |
| Depreciation | 2 200 | 2 200 |
| Wages and salaries | **?** | 256 000 |
| Bad debts | 19 500 | 34 125 |
| Advertisements | 0 | 11 000 |
| Discount allowed | 20 475 | 18 900 |
| Interest expense (9% p.a.) | 3 780 | 3 510 |

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|  | **B.** | **ADDITIONAL INFORMATION:** |  |

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|  |  | (i) | Cash sales amount to 40% of all sales. |  |

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|  |  | (ii) | A mark-up of 75% on cost is maintained. Stock is replaced in the same month as sales. |  |

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|  |  | (iii) | 20% of all purchases of stock are bought for cash. |  |

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|  |  | (iv) | All creditors are paid in full in 30 days (in the month following the purchase). |  |

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|  |  | (v) | Commission is received one month after it is earned. Commission is budgeted to increase by R1 000 per month. |  |

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|  |  | (vi) | Sundry expenses consist of cash items only. It is expected to decrease by 8% each month. |  |

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|  |  | (vii) | Wages and salaries for December 2015 include a bonus of R40 000 for the manager. A wage and salary increase of 8% for all employees will be applied from 1 December 2015. |  |

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|  |  | (viii) | Advertisements will appear in a newspaper on the first day of each month, commencing on 1 December. Payment to cover three advertisements will be made in full on 15 November. |  |

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|  |  | (ix) | The interest rate is 9% p.a. Interest is not capitalised and is paid monthly. A portion of the loan will be repaid on 30 November 2015. |  |

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| 5.2 | **SLEEPEZI BEDS (PTY) LTD**  You are provided with information for two months ending 31 October 2015.  The business sells one type of bed.  **REQUIRED:** |  |  |

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|  | 5.2.1 | Calculate the percentage increase in the amount budgeted for salaries and wages for October 2015. Should the employees be satisfied with this? Explain. |  | (3) |

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|  | 5.2.2 | The financial director is pleased with the work being done by the bookkeeper and internal auditor. Identify an expense that indicates that he is correct. Explain your answer. |  | (3) |

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|  | 5.2.3 | A competitor, BB Beds, which sells only for cash, opened a store nearby on 1 October 2015.   * Comment on how the new competitor has affected the sales of Sleepezi Beds. Provide figures. * Explain how Sleepezi Beds has responded to this problem. Provide THREE points. Provide figures. |  | (4)  (9) |

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|  | 5.2.4 | Cash balances:   * Comment on the cash balances. Provide figures. * Explain how the directors can improve the cash balances in future. Explain TWO points. |  | (2)  (4) |

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|  | **INFORMATION:** |  |  |

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|  | **A.** | Expected sales, cost of sales and deliveries:   * The business budgets on selling 300 beds per month. * The cost price of each bed is R3 000 and the selling price is R5 000. No discounts are allowed. * The stock of beds is replaced in the month of sale. * Suppliers are paid in the month of purchase. * The business uses Cape Deliveries to deliver the beds to each customer. |  |

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|  | **B.** | Extract from the Cash Budget: | | | | |  |
|  | **SEPTEMBER 2015** | | **OCTOBER 2015** | | | |
|  | **PROJECTED** | **ACTUAL** | **PROJECTED** | **ACTUAL** | | |
| Cash surplus (deficit) for month | 110 000 | 125 000 | 120 000 | (440 000) | | |
| Cash at beginning of month | 105 000 | 105 000 | 215 000 | 230 000 | | |
| Cash at end of month | **215 000** | **230 000** | **335 000** | **(210 000)** | | |

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|  | **C.** | Extract from the Projected Income Statement: | | | | |  |
|  | **SEPTEMBER 2015** | | **OCTOBER 2015** | | | |
|  | **PROJECTED** | **ACTUAL** | **PROJECTED** | **ACTUAL** | | |
| Number of beds sold | **300 beds** | **320 beds** | **300 beds** | **240 beds** | | |
| Cash sales | 1 200 000 | 1 280 000 | 1 200 000 | 300 000 | | |
| Credit sales | 300 000 | 320 000 | 300 000 | 900 000 | | |
| Total sales | 1 500 000 | 1 600 000 | 1 500 000 | 1 200 000 | | |
| Cost of sales | (900 000) | (960 000) | (900 000) | (720 000) | | |
| Gross profit | 600 000 | 640 000 | 600 000 | 480 000 | | |
| Operating expenses | (313 000) | (323 000) | (407 600) | (374 960) | | |
| Directors' fees | 80 000 | 80 000 | 80 000 | 36 000 | | |
| Salaries and wages | 30 000 | 30 000 | 31 800 | 31 800 | | |
| Advertising | 10 000 | 10 000 | 10 000 | 40 000 | | |
| Delivery costs  (Cape Deliveries) | 150 000 | 160 000 | 150 000 | 168 000 | | |
| Audit fees | 0 | 0 | 90 000 | 50 000 | | |
| Rent expense | 28 000 | 28 000 | 30 800 | 34 160 | | |
| Sundry expenses | 15 000 | 15 000 | 15 000 | 15 000 | | |
|  |  |  |  |  | | |
| Operating profit | **287 000** | **317 000** | **192 400** | **105 040** | | |

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| **QUESTION 6: BUDGETING (40 marks; 25 minutes)** | | | | | | | | |
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| You are provided with information relating to Mayhem (Pty) Ltd. | | | | | | | | |  |
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| **REQUIRED:** | | | | | | | | |  |
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| 6.1 | | | **Refer to Information G.** | | | | | |  |
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|  | | | 6.1.1 | Identify TWO items that the bookkeeper recorded incorrectly in the Cash Budget. | | | | | (2) |
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|  | | | 6.1.2 | Identify TWO items in the Cash Budget that would NOT appear in a Projected Income Statement. | | | | | (2) |
|  | | |  | | | | | |  |
| 6.2 | | | Complete the Debtors' Collection Schedule for October 2016. | | | | | | (9) |
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| 6.3 | | | Calculate the missing amounts indicated by **(a)** to **(d)** in the Cash Budget. | | | | | | (18) |
|  | | |  | | | | | |  |
| 6.4 | | | The directors compared the budgeted figures to the actual figures for September 2016.   |  |  |  | | --- | --- | --- | |  | **BUDGETED** | **ACTUAL** | | Sales | R288 000 | R489 600 | | Salaries: Salespersons | R40 000 | R12 000 | | Commission: Salespersons | R0 | R66 150 | | Packing material | R14 400 | R17 280 | | | | | | |  |
|  | | |  |  | | | | |  |
|  | | | 6.4.1 | The directors changed the method of payment to the salespersons. Explain how this has benefitted the salespersons and the business. Quote figures. | | | | | (4) |
|  | | |  |  | | | | |  |
|  | | | 6.4.2 | The directors are not concerned about the overspending on packing material. Explain why this is so. Quote figures or calculations. | | | | | (5) |
| **INFORMATION:** | | | | | | | | |  |
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| **A.** | | **Projected Income Statement:**  Information extracted for the three months ended 31 October 2016: | | | | | | |  |
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|  | |  | | | | **AUGUST** | **SEPTEMBER** | **OCTOBER** |  |
|  | | **R** | **R** | **R** |  |
|  | | Sales | | | | 252 000 | 288 000 | **?** |  |
|  | | Cost of sales | | | | **?** | (160 000) | **?** |  |
|  | | Rent income | | | | **?** | **?** | 12 960 |  |
|  | | Discount received | | | | 3 600 | 4 000 | **?** |  |
|  | | Depreciation | | | | 5 400 | 5 400 | 5 400 |  |
|  | | Bad debts | | | | 2 800 | 3 350 | **?** |  |
|  | | Interest on loan | | | | 6 875 | 6 875 | **?** |  |
|  | |  | | | | | | |  |
| **B.** | **Sales:**   * Sales are expected to increase by 15% in October 2016. | | | | | | | |  |
|  | * Credit sales comprise 60% of total sales. | | | | | | | |  |
|  | * The mark-up percentage is 80% on cost. | | | | | | | |  |

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| **C.** | | **Debtors' collection:** | | |  | | |
|  | | * 50% is collected in the month of sale. | | |  | | |
|  | | * 40% is collected in the month following the month of sale. | | |  | | |
|  | | * 7% is collected two months after the sale. | | |  | | |
|  | | * 3% is written off as irrecoverable. | | |  | | |
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| **D.** | | **Purchases:**   * All purchases of stock are on credit. * Stock is replaced in the month of sale. A base stock is maintained. * Creditors are paid two months after purchase, subject to a 4% discount. | | |  | | |
|  | |  | | |  | | |
| **E.** | | **Directors' fees:**   * The business had three directors earning the same monthly fee. * On 30 September 2016 one of the directors resigned. * The remaining directors will receive an increase of 35% in their monthly fee from 1 October 2016. | | |  | | |
|  | |  | | |  | | |
| **F.** | | **Loan:**   * The loan was reduced by R52 800 on 30 September 2016. * Interest at 12,5% p.a. is payable every month and is not capitalised. | | |  | | |
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| **G.** | **Extract from the Cash Budget prepared by the bookkeeper:** | | |  | | |
|  |  | | |  | | |
|  |  | **SEPTEMBER 2016** | **OCTOBER 2016** |  | | |
|  | **R** | **R** |  | | |
|  | **RECEIPTS** |  |  |  | | |
|  | Cash sales | **(a)** | 132 480 |  | | |
|  | Cash from debtors | 155 280 | **?** |  | | |
|  | Rent income | 12 000 | 12 960 |  | | |
|  | Discount received | 3 600 | 5 600 |  | | |
|  | Fixed deposit | 56 000 | 0 |  | | |
|  |  |  |  |  | | |
|  | **PAYMENTS** |  |  |  | | |
|  | Payments to creditors | 156 000 | **(b)** |  | | |
|  | Directors' fees | 216 000 | **(c)** |  | | |
|  | Salaries of salespersons | 40 000 | 40 000 |  | | |
|  | Repayment of loan | 52 800 | 0 |  | | |
|  | Interest on loan | 6 875 | **(d)** |  | | |
|  | Delivery expenses | 27 500 | 27 500 |  | | |
|  | Audit fees | 60 000 | 0 |  | | |
|  | Bad debts | 3 200 | 3 600 |  | | |
|  | Depreciation | 17 400 | 17 400 |  | | |
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| **QUESTION 5** | | | |
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| **5.1** | **BRUCE TRADERS**  **CASH BUDGET FOR NOVEMBER AND DECEMBER 2015** | | |
| **CASH BUDGET** | **NOVEMBER 2015**  **R** | **DECEMBER 2015**  **R** |
| **CASH RECEIPTS:** | | |
| **Cash sales** |  | **399 000** |
| **Cash from debtors** | **536 025** | **597 975** |
| **Commission income** |  |  |
| **Total receipts** |  |  |
| **CASH PAYMENTS:** | | |
| **Cash purchases of stock** |  | **114 000** |
| **Payments to creditors** | **520 000** |  |
| **Sundry expenses** | **22 500** |  |
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|  |  |  |
|  |  |  |
| **Total payments** | **935 280** | **874210** |
| **Surplus (deficit)** | **26 745** |  |
| **Opening bank balance** | **(56 000)** |  |
| **Closing bank balance** | **(29 255)** |  |