

Monyetla Project – Accounting Gr 11

Lesson 4: Budgeting

EXAMPLE 1: HOLMES STORES

HOLMES STORES

(40 marks, 32 minutes)

REQUIRED:

1. Explain the difference between a Cash Budget and a Projected Income Statement in short. (2)
2. Complete the Debtors Collection Schedule of Holmes Stores for May and June 2016. (7)
3. Compile the Cash Budget of Holmes Stores for May and June 2016. (31)

INFORMATION:

Provisional budgeted amounts		May 2016	June 2016
Sales	Cash	42 600	48 500
	Credit	76 500	94 400
Purchases of Trading stock	Cash	22 000	27 300
	Credit	58 000	43 800
Drawings	Cash	10 500	12 000
	Stock	3 750	2 500
Bad debts written off		1 800	2 160

Additional information:

1. The bank balance was R25 000 favourable on 30 April 2016.
2. Debtors pay their accounts as follows:
 - 20% during the same month of sales, less 5% discount for timeously payments.
 - 50% during the first month that follows the transaction month (30 days).
 - 25% during the second month that follows the transaction month (60 days).
 - The rest will be written off in the third month following the transaction month (90 days).
3. Suppliers are fully paid in the month following the purchases. Purchases of trading stock during April amounted to R37 000, of which 75% was done on credit.
4. The monthly wages for May will amount to R16 000. Wages are annually increased on 1 June. The increase for 2016 is expected to be 7,5%.
5. Holmes Stores took out a loan for R54 000 at 14% interest per year, on 1 June 2014. The loan is repayable in annual payments of R9 000 on 31 May each year. The interest is payable monthly.

6. The depreciation on vehicles for the year ended 30 June 2016 was calculated at R21 000.
7. Advertising costs are based on the monthly projected sales and paid by cheque in the same month. It is expected that the advertising costs will increase on 1 June 2016 from 3% to 4% of sales.
8. Holmes Stores rents out a flat that is part of the building. The rent is received on the first day of each month by means of a payment by stop order. An increase of 15% is annually set in motion on 1 June.
9. Other operating expenses amount to R7 500 for April 2016. These expenses are expected to increase by R500 per month.

HOLMES STORES

1.	Explain the difference between a Cash Budget and a Projected Income Statement in short.	2
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2.	Debtors Collection Schedule for May and June 2016	7																								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">Credit Sales</th> <th style="width: 15%; text-align: center;">May</th> <th style="width: 35%; text-align: center;">June</th> </tr> </thead> <tbody> <tr> <td>March</td> <td style="text-align: center;">40 000</td> <td style="text-align: center;">10 000</td> <td></td> </tr> <tr> <td>April</td> <td style="text-align: center;">56 000</td> <td></td> <td></td> </tr> <tr> <td>May</td> <td style="text-align: center;">76 500</td> <td></td> <td></td> </tr> <tr> <td>June</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Credit Sales	May	June	March	40 000	10 000		April	56 000			May	76 500			June								
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June																										

Calculations:

3.

**HOLMES STORES
CASH BUDGET FOR MAY AND JUNE 2016**

	May	June
RECEIPTS		
Cash sales		
Cash from debtors		
Rent income		6 325
TOTAL RECEIPTS		
PAYMENTS		
Cash purchases	22 000	27 300
Payments to creditors		
Wages	16 000	
TOTAL PAYMENTS		
Cash surplus / deficit		
Bank balance beginning of the month	25 000	
Bank balance end of the month		

31

TOTAL MARKS		40
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HOLMES STORES

1.	<p>Explain the difference between a Cash Budget and a Projected Income Statement in short.</p> <p><i>Any short explanation of each ✓ ✓</i></p> <p>A <u>Cash Budget</u> is used to project/plan/estimate the expected bank balance at the end of the budget period.</p> <p>To plan/estimate/control expected cash received and paid over the budget period.</p> <p>Not showing non-cash items, e.g. Depreciation and Bad debts in the Cash Budget.</p> <p>The <u>Projected Income Statement</u> is to project/plan/estimate the expected net profit for the budgeted period.</p> <p>To plan/estimate/control expected income and expenses for the budget period.</p> <p>Not showing any Assets or Liabilities in the Projected Income Statement.</p>	2
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2.	<p>Debtors Collection Schedule for May and June 2016</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">Credit Sales</th> <th style="width: 15%; text-align: center;">May</th> <th style="width: 35%; text-align: center;">June</th> </tr> </thead> <tbody> <tr> <td>March</td> <td style="text-align: right;">40 000</td> <td style="text-align: right;">10 000</td> <td style="text-align: center;">-</td> </tr> <tr> <td>April</td> <td style="text-align: right;">56 000</td> <td style="text-align: right;">28 000 ✓</td> <td style="text-align: right;">14 000 ✓</td> </tr> <tr> <td>May</td> <td style="text-align: right;">76 500</td> <td style="text-align: right;">14 535 ✓✓</td> <td style="text-align: right;">38 250 ✓</td> </tr> <tr> <td>June</td> <td style="text-align: right;">94 400</td> <td style="text-align: center;">-</td> <td style="text-align: right;">17 936 ✓✓</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">52 535</td> <td style="text-align: right;">70 186</td> </tr> </tbody> </table>		Credit Sales	May	June	March	40 000	10 000	-	April	56 000	28 000 ✓	14 000 ✓	May	76 500	14 535 ✓✓	38 250 ✓	June	94 400	-	17 936 ✓✓			52 535	70 186	7
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3.

HOLMES TRADERS
CASH BUDGET FOR MAY AND JUNE 2016

	May	June
RECEIPTS		
Cash sales	42 600 ✓	48 500 ✓
Cash from debtors	52 535 ✓	70 186 ✓
Rent income 6	5 500 ✓✓	6 325
TOTAL RECEIPTS	100 635	125 011
PAYMENTS		
Cash purchases	22 000	27 300
Payments to creditors	27 750 ✓✓	58 000 ✓
Wages	16 000	17 200 ✓✓
Drawings	10 500 ✓	12 000 ✓
Instalment on loan / Loan payment	9 000 ✓	-
Interest on loan (May: $54\,000 - 9\,000 = 45\,000 \times 14/100 \times 1/12$) (Jun: $45\,000 - 9\,000 = 36\,000 \times 14/100 \times 1/12$)	525 ✓✓✓	420 ✓✓✓
Advertising (May: $3/100 \times [42\,600 + 76\,500] = 1\,278 \checkmark + 2\,295 \checkmark$) (Jun: $4/100 \times [48\,500 + 94\,400] = 1\,940 \checkmark + 3\,776 \checkmark$)	3 573 ✓✓✓	5 716 ✓✓✓
Operating expenses 22	8 000 ✓	8 500 ✓
TOTAL PAYMENTS	97 348	129 136
Cash surplus / deficit	3 287 ✓	(4 125) ✓
Bank balance beginning of the month 3	25 000	28 287 ✓
Bank balance end of the month	28 287	24 162

(-1) Non-cash items such as Depreciation, Bad debts **Max (-2)**

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Interest on loan: The loan of R54 000 at 14% interest p.a. was taken out on 1 June 2014, which is 2 years ago. The loan is repayable in annual payments of R9 000 on 31 May each year.

Timeline:

- 1 June 2014: The business received R54 000 as a loan. The loan was R54 000 from 1 June 2014 – 31 May 2015.
- 31 May 2015: The business paid R9 000 as an instalment on the loan. The loan was R45 000 from 1 June 2015 – 31 May 2016.
- 31 May 2016: The business will pay R9 000 as an instalment on the loan. The loan will still be **R45 000 in May 2016 and R36 000 in June 2016.**

TOTAL MARKS		40
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Lesson 4: Budgeting**EXAMPLE 2: LUXURY STORES****LUXURY STORES****(50 marks, 40 minutes)**

The information below is from the books of Luxury Stores. You are required to:

1. Complete the Cash Budget of Luxury Stores for January, February and March 2012. (46)

Answer the following questions:

2. Why is it necessary to prepare a Cash Budget? (2)
3. Give two measures that can be implemented to get debtors to settle their accounts sooner. (2)

INFORMATION:

	Actual	Budgeted		
	Dec 2011	Jan 2012	Feb 2012	Mar 2012
Credit sales	R81 000	R66 000	R57 000	R60 000
Cash sales	R54 000	R44 000	R38 000	R40 000

1. Favourable bank balance on 1 January 2012, R8 200.
2. Debtors normally settle their accounts as follows:
 - 20% in the same month in which the transaction takes place and they received a 2½% discount for early payment
 - 75% after 30 days
 - 5% to be written off after 60 days.
3. The business uses a constant profit mark-up of 25% on cost.
 - The business maintains constant levels of trading stock.
 - 70% of all stock purchased, is paid for in cash.
 - Creditors are paid one month after the date of the invoice and a discount of 10% is received
 - The business always takes advantage of the discount.
4. Operating expenses, including depreciation of R2 000, amount to an average of R12 000 per month.
5. The interest rate on fixed deposit of R18 000 is 14% per annum. Interest is received monthly. An additional amount of R7 200 will be invested on 28 February 2012. The interest rate on the fixed deposit is to be increased to 15% p.a. from 1 March 2012.
6. The owner withdraws R5 000 cash per month. In addition to this he also withdraws trading stock of R2 000 per month.
7. During March 2012 the owner will donate merchandise worth of R3 600 to the old-age home on behalf of the business.

8. Salaries amounted to R4 000 per month per employee. The business has four employees. Salary earners are entitled to an 8% annual inflationary increase commencing in February 2012.

The business will employ a manager during March 2012. He will receive a salary that will be 20% more than those of the other employees.

9. The business has only one vehicle. It was decided to trade it in on a new vehicle on 1 February 2012.

The following quotation was received and accepted:

Cost price of new vehicle	R85 000
Trade-in value of old vehicle	R20 000
Suggested deposit – payable in February	?
(10% of remaining cost price)	

The balance is payable in monthly instalments of R1 800 from 31 March 2012.

LUXURY STORES**1. CASH BUDGET OF LUXURY STORES**

Budget period: 1 January 2012 – 31 March 2012

	January	February	March
CASH RECEIPTS			
Cash sales			
Cash from debtors			
Dec			
Jan			
Feb			
Mar			
TOTAL RECEIPTS			
CASH PAYMENTS			
Cash purchases			
Payments to creditors			
TOTAL PAYMENTS			
Cash surplus / deficit			
Bank opening balance			
Bank closing balance			

2.	Why is it necessary to prepare a Cash Budget?	2
3.	Give two measures that can be implemented to get debtors to settle their accounts sooner.	2

TOTAL MARKS		50
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Calculations:

	Sales	Purchases	Cash	Credit
Dec				
Jan				
Feb				
Mar				

LUXURY STORES

1. CASH BUDGET OF LUXURY STORES

Budget period: 1 January 2012 – 31 March 2012

	January	February	March
CASH RECEIPTS			
Cash sales	√ 44 000	√ 38 000	√ 40 000
Cash from debtors	73 620	60 615	54 450
Dec [81 000] D J	√ 60 750	-	-
Jan [66 000] J F	√√ 12 870	√ 49 500	-
Feb [57 000] F M	-	√√ 11 115	√ 42 750
Mar [60 000] M A	-	-	√√ 11 700
Interest on fixed deposit (Jan & Feb: $14/100 \times R18\,000 \times 1/12$) (Mar: $15/100 \times R25\,200 \times 1/12$)	√ 210	√ 210	√√ 315
TOTAL RECEIPTS 16	117 830	98 825	94 765
CASH PAYMENTS			
Cash purchases [70%] (Jan: $[110\,000 \times 100/125 = 88\,000 + 2\,000] \times 70\%$) (Feb: $[95\,000 \times 100/125 = 76\,000 + 2\,000] \times 70\%$) (Mar: $[100\,000 \times 100/125 = 80\,000 + 2\,000 + 3\,600] \times 70\%$)	√ 63 000	√ 54 600	√ 59 920
Payments to creditors [30%] (Dec: $[135\,000 \times 100/125 = 108\,000 + 2\,000] \times 30\% \times 90\%$) (Jan: $[110\,000 \times 100/125 = 88\,000 + 2\,000] \times 30\% \times 90\%$) (Jan: $[95\,000 \times 100/125 = 76\,000 + 2\,000] \times 30\% \times 90\%$)	√√ 29 700	√√ 24 300	√√ 21 060
Operating expenses (12 000 – 2 000)	√ 10 000	√ 10 000	√ 10 000
Fixed deposit	-	√ 7 200	-
Drawings	√ 5 000	√ 5 000	√ 5 000
Salaries (Jan: $R4\,000 \times 4$) (Feb: $R16\,000 \times 108/100$) (Mar: $4\,000 \times 108/100 = 4\,320 \times 120/100 = 5\,184 + 17\,280$)	√√ 16 000	√√√ 17 280	√√√ 22 464
Vehicles (R85 000 – R20 000 = R65 000 x 10%)	-	√√ 6 500	√ 1 800
TOTAL PAYMENTS 27	123 700	124 880	120 244
Cash surplus / deficit	(5 870)	(26 055)	(25 479)
Bank opening balance	√ 8 200	☑ 2 330	☑ (23 725)
Bank closing balance 3	2 330	(23 725)	(49 204)

(-1) for Foreign items: Bad debts, Depreciation, Donation **Max (-2)**

[46]

2.	<p>Why is it necessary to prepare a Cash Budget?</p> <ul style="list-style-type: none"> - A business needs to plan for future receipts and payments in order to ensure that they have enough cash, or to arrange for an overdraft/loan when necessary. - Cash management – anticipating future receipts and payments and planning for them. (Not income and expenses!) - To justify certain payments, such as purchases of assets / pay back the loan. - To assist with management decisions to expand, cut back, promote, etc. <p>For 1 mark:</p> <ul style="list-style-type: none"> - To calculate the bank balance - To determine trends – good or bad - To motivate for loans/overdrafts <p style="text-align: right;"><i>Any valid point √√</i></p>	2
3.	<p>Give two measures that can be implemented to get debtors to settle their accounts sooner.</p> <p>Give discount to debtors who settle their accounts on time √ Charge overdue debtors with interest √</p>	2

NOTES: Because the Purchases/Cost of sales was not given and must be calculated, you must add the drawings and donations of stock for certain months, for the business to maintain constant levels of stock.

This was done in the calculations in the Cash budget itself.

No 6: The owner withdraws R5 000 cash per month. In addition to this he also withdraws trading stock of R2 000 per month.

No 7: During March 2012 the owner will donate merchandise worth of R3 600 to the old-age home on behalf of the business.

TOTAL MARKS		50
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