

Monyetla Project – Accounting Gr 11

Lesson 4: Budgeting

QUESTION 1: NOSIPA TRADERS

(48 marks, 38 minutes)

The following information appears in the books of Nosipa Traders.

REQUIRED:

- 1.1 Why is it important to draw up a Cash Budget? (2)
- 1.2 Name two items that would not appear in the Cash Budget. (2)
- 1.3 Complete the Debtors Collection Schedule of Nosipa Traders for September and October 2015. (10)
- 1.4 Draw up the Cash Budget of Nosipa Traders for September and October 2015. (34)

INFORMATION:

Budgeted amounts		September	October
Sales	Cash	86 000	78 000
	Credit	74 000	92 000
Purchases	Cash	36 500	32 400
	Credit	56 600	41 500

Additional information:

1. Debtors are paying as follows:
 - 40% in the same month of sale less 5% discount for prompt payment.
 - 30% in the month following the sale (30 days)
 - 25% in the second month following the sale (60 days)
 - The rest will be written off as bad debts after 90 days
2. Providers are paid in full in the month following the purchase. The total purchases of stock during August was R44 000. 75% of the purchases in August were on credit.
3. The business employed 4 workers during August 2015, each earning R1 000 per week. There were 4 working weeks in September and October. On 1 September a 5th worker has been appointed. He earns 75% of the amount the other workers get paid. During October all workers received a raise of R200 per week.
4. On 1 July 2015 Nosipa Traders got a loan of R80 000 at 12% interest per year. The interest is payable each month. Each quarter R8 000 must be paid back on the loan, starting as from 1 October 2015.
5. Advertising cost is based on the sales of the month and it is paid per cheque each month. As from the 1 October 2015 advertising cost will go down from 4% to 3% of sales.

6. Nosipa Traders rent out a part of their building. The tenant is paying his rent on the first day of each month with a debit note. The rent amount is R6 500 per month. The rent increases with 15% every year on 1 October.
7. The depreciation on vehicles and equipment amounts to R5 600 per month.
8. Other operating expenses are R1 500 in September and will increase every month with R200.
9. On 30 August 2015 the bank overdraft is R110 000.

Lesson 4: Budgeting**QUESTION 2: SIMON'S STATIONERY SHOP****(35 minutes)**

You are provided with information relating to Simon's Stationery Shop. The business is owned by Simon Simpson. You are required to:

- 2.1 Prepare the Debtors Collection Schedule for December 2018, January and February 2019.
- 2.2 Complete the Cash Budget for December 2018, January and February 2019. Note that some of the amounts are given on the answer sheet.

INFORMATION:

1. Actual and budgeted figures from the Projected Income Statement as follows:

	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019
Sales	R280 000	R320 000	R360 000	R200 000	R120 000
Cost of sales	R224 000	R256 000	R288 000	R160 000	R96 000

Note: - Credit sales comprise 75% of sales.

- Goods are replaced in the month of the sales transaction.
 - Cash purchases comprise 40% of total stock purchases.
2. Collection from debtors had historically been as follows:
 - 30% pay in the month following the sales transaction month
 - 65% pay in the second month following the sales transaction month.
 - 5% pay to be written off as bad in the third month following the sales transaction month.
 3. Creditors for stock are paid in 60 days subject to 10% cash discount.
 4. The monthly rental will be increased by 12% with effect from 1 February 2019.
 5. With effect from 1 January 2019, salaries and wages will increase as follows:
 - Salary of the shop manager will increase by 9%.
 - Salary of the four shop assistants will increase by 5%.

Note that one of the four shop assistants had resigned with effect from 1 February 2019 and will not be replaced.
 6. Advertising is budgeted as a fixed % of budgeted sales for each month.
 7. Staff training of R40 000 and R46 000 will be paid in January and February 2019 respectively.

Lesson 4: Budgeting**QUESTION 3: YUSUF DEALERS****(46 marks, 36 minutes)**

You are provided with information in respect of Yusuf Dealers. The business, owned by Majid Yusuf, maintained a profit mark-up of 25% on cost.

REQUIRED:

- 3.1 Explain the difference between a Cash Budget and a Projected Income Statement in short. (4)
- 3.2 Complete the Cash Budget for the period 1 January to 2016 28 February 2016. (42)

INFORMATION:

1. Figures extracted from the books:

	Actual		Budgeted	
	Nov 2015	Dec 2015	Jan 2016	Feb 2016
Sales	R550 000	700 000	280 000	360 000
Accrued salaries	-	30 000	40 000	-
Drawings	40 000	40 000	40 000	50 000
Depreciation	12 000	12 000	12 000	12 000
Sundry expenses	18 000	26 000	13 000	?

2. 20% of purchases of trading stock are for cash. Creditors are paid one month after the date of purchase in order to receive a 5% discount. The business has a policy of maintaining constant levels of trading stock.
3. 50% of sales are on credit and debtors pay their accounts as follows:
- 55% settle during the month of the transaction, 3% discount is allowed
 - 25% settle in the month following the transaction
 - 15% settle in the second month after the transaction
 - 5% will be written off as irrecoverable
4. Salaries amount to R120 000 per month. In February each year all employees receive a bonus equal to 50% of their salary. All salaries owing from a particular month are paid in the following month.
5. The owner withdraws R18 000 worth of stock each month.
6. Trading stock with a cost price of R1 200 will be donated to the Old Age Home during December and January 2016.

7. A delivery vehicle with a cost price of R650 000 will be sold for R350 000 cash during January 2016. In February 2016 a new vehicle will be purchased for R800 000. This amount will be paid by a deposit of 10% in February and 10 equal instalments starting from March 2016.
8. Sundry expenses are expected to increase by 4% in February 2016.
9. On 1 February 2016, Yusuf Dealers will increase their loan from R300 000 to R500 000. The interest rate is 18% p.a. and the interest is payable every month.
10. On 31 December 2015 the bank overdraft was R8 000.

Lesson 4: Budgeting**QUESTION 4: HADEBE TRADERS****(35 minutes)**

You are provided with information relating to Hadebe Traders, a sole proprietor.

Prepare the Cash budget for March and April 2017.

INFORMATION:

1. Sales	ACTUAL SALES		BUDGETED SALES	
	Cash	Credit	Cash	Credit
January 2017	18 880	75 200		
February 2017	12 600	50 400		
March 2017			19 600	78 400
April 2017			24 600	90 200

Debtors will pay their accounts as follows:

- 50% in the month of the sale. (These debtors receive 5% discount.)
 - 30% after 30 days (in the month after sales)
 - 15% after 60 days (two months after sales)
 - 5% are to be written off as bad debts
2. Purchases of trading inventory. The business maintains a mark-up percentage of 40% on cost of sales and maintains a fixed base stock level.
 - 25% of the purchases are for cash and the remainder is on credit.
 - Creditors are paid in the month after the purchase of stock (30 days).
 3. The owner withdraws R1 500 cash per month and will donate merchandise with a value of R1 800 during March 2017 to the local church.
 4. Interest on fixed deposit amounts to R4 800 per year and is received every six months on 1 March and 1 September.
 5. Operating expenses amount to R18 000 per month and are paid by cheque.
 6. Salaries amount to R24 000 per month. During March 2017 the four employees will receive a merit bonus of 80% of their monthly salary.
 7. The rent income for the previous financial year ended 31 December 2016, was R42 720. The rent increase annually with 15% on 1 April.
 8. Depreciation on vehicles is R7 800 per month. This is after allowing for an additional vehicle bought on credit on 1 January 2017 for R96 000. The vehicle is being paid off in 12 equal monthly instalments from 28 February 2017.
 9. Bank charges are expected to be R500 per month.
 10. During March 2017 the owner, H. Hadebe, will contribute additional capital in the form of cash (R40 000) and equipment (R17 000).
 11. The balance of the Bank account on 28 February 2017 was an overdraft of R6 000.