

ACCOUNTING

Grade 12

Chapter 10

Budgets

THEORY

WORKSHEET & MEMO



Compiled by
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TABLE OF CONTENTS

	Page
1. Introduction	3
2. The purpose of preparing a budget.	3
3. Factors to consider when budgeting	3
4. Two types of budgets	3
5. Terminology	4
6. Format of a cash budget	5
7. Format projected income statement	6
8. Debtors' collection schedule	6
9. Creditors payment schedule	10
10. Examples of challenging calculations: loan & fixed deposit	13
11. Internal control	16

THIS BOOKLET CONSIST OF 17 PAGES



1. INTRODUCTION



FINANCIAL PLAN

EXPECTED RECEIPTS AND PAYMENTS

MONITOR

PLANNING FOR THE FUTURE

EXPECTED INCOME AND EXPENSES

WILL THE BUSINESS BE ABLE TO SURVIVE?

DO WE NEED TO BORROW MONEY?

DO WE HAVE THE POTENTIAL TO EXPAND IN THE FUTURE?

DID WE OVERSPENT OR UNDER BUDGET?

2. THE PURPOSE OF PREPARING A BUDGET.

- Prevents over expenditure.
- Prevents people or a business from spending more than they are expecting to receive within a specified period.
- Prevents people from debts.
- It prevents business from bank overdrafts.
- It shows changes in spending habits.
- It helps prioritising expenditure.
- It is an internal control measure for receipts and payments.

3. FACTORS TO CONSIDER WHEN BUDGETING

- Inflation
- The economy
- Exchange rate if goods are imported
- Competitors
- Market trends
- Use past transactions to budget accurately

4. TWO TYPES OF BUDGETS

CASH BUDGET

- Expected inflow and outflow of cash
- Expected deficit or surplus
- Expected bank balance
- Only cash transactions, no credit transactions
- All non-cash items **excluded** like bad debts, depreciation, profit/loss on sales of an asset, discount received, discount allowed.
- A forecast of expected cash position (receipts and payments) for a specific period in the future.

PROJECTED INCOME STATEMENT

- Expected income and expenses for the year which include all transactions, cash and credit.
- Expected profit or loss.
- Only income and expenses
- No assets and liabilities
- A forecast of expected net profit or loss for a specific period in the future

5. TERMINOLOGY

 <p>Cash Budget</p>	<ul style="list-style-type: none">• Actual cash received and paid out on a monthly basis.• The business needs to know when they will need large amounts of money so that they can borrow money or increase their capital.• The business needs to know if they have excess cash on hand to take advantage of new business opportunities.
 <p>Deficit</p>	<ul style="list-style-type: none">• Total payments exceeds the total receipts.
 <p>Surplus</p>	<ul style="list-style-type: none">• Total receipts exceeds the total payments.
 <p>Profit</p>	<ul style="list-style-type: none">• Total income exceeds the total expenses
 <p>Loss</p>	<ul style="list-style-type: none">• Total expenses exceeds the total income
 <p>Debtors collection period</p>	<ul style="list-style-type: none">• How long does it take debtors to pay us.• Debtors must pay based on the credit terms (30 days, 60 days etc.)• However, debtors does not adhere to credit terms.• The business will estimate a percentage based on past experiences how debtors will pay on a monthly basis.
 <p>Creditors payment period</p>	<ul style="list-style-type: none">• Payment to our creditors (suppliers) based on their credit terms.• Must use the COST OF SALES. Determine what percentage will be bought cash and which percentage on credit.
 <p>Projected Income Statement</p>	<ul style="list-style-type: none">• Similar to a Statement of Comprehensive Income except on a monthly basis.• Income shown in the month it will be earned, irrespective of when the cash will be received.• Expenses shown in the month in which it will incur, irrespective if it has been paid or not.• Ensure that the business is profitable
 <p>Fixed stock base</p>	<ul style="list-style-type: none">• Stock is replaced monthly.• As soon as stock is sold, it will be replaced in the same month.• The stock remains constant from month to month.

6. FORMAT OF A CASH BUDGET

- Form of ownership a sole trader or a company.
- If the form of ownership is a company, payments will be made towards SARS, dividends, repurchase of shares. Earnings would include the selling of shares.

CASH BUDGET FOR THE PERIOD 1 JANUARY 2022 TO 31 MARCH 2022.

SPECIFIC PERIOD EXAMPLE 3 MONTHS

	JANUARY	FEBRUARY	MARCH	TOTAL
Cash Receipts				
Cash sales				
Cash from debtors				
Sales of tangible assets				
Loan received				
Fixed deposit matures				
"All cash received from an income"				
Additional capital contributed				
TOTAL RECEIPTS (A)	300 000	350 000	320 000	970 000
Cash Payments				
Cash purchase trading stock				
Payment to creditors				
Purchase of tangible assets				
Repayment of loan				
Investment into a fixed deposit				
Drawings (cash)				
"All payments of expenses"				
TOTAL PAYMENTS (B)	220 000	345 000	340 000	905 000
Surplus/ deficit (A minus B)	80 000	5 000	(20 000)	65 000
Opening balance	40 000	120 000	125 000	40 000
Closing balance	120 000	125 000	105 000	105 000

COMPLETING THE CASH BUDGET:

- Total receipts minus total payments equals surplus or deficit.
- Opening balance is your bank balance in the beginning.
- Surplus plus opening balance equals closing balance. Be careful if you have a deficit and a bank overdraft! A deficit and the bank overdraft must be shown in brackets.
- The closing balance at the end of the month becomes your opening balance the following month.
- Refer to the total column: The opening balance will be the bank balance in the beginning (January). The closing balance must be equal to the closing balance (March). If it is the same, you have done it correctly.

7. FORMAT PROJECTED INCOME STATEMENT

- Know your formats if a Projected Income Statement is asked based on a company.
- IN EXAMPLE BELOW:**
The mark-up percentage is 100% on cost.
Based on a Sole Trader

	JANUARY	FEBRUARY	MARCH	TOTAL
Sales	800 000	960 000	816 000	2 576 000
Cost of sales ($CP=SP \times \frac{100}{200}$)	(400 000)	(480 000)	(408 000)	(1 288 000)
Gross profit	400 000	480 000	408 000	1 288 000
Other operating income	210 000	250 000	300 000	760 000
	ALL INCOME ON A MONTHLY BASIS IRRESPECTIVE IF RECEIVED OR NOT. THIS INCLUDES NON-CASH ITEMS.			
Gross operating income	610 000	730 000	708 000	2 048 000
Operating expenses	(457 500)	(569 400)	(566 400)	(1 593 300)
	ALL EXPENSES ON A MONTHLY BASIS IRRESPECTIVE IF PAYMENT WAS MADE OR NOT. THIS INCLUDES NON-CASH ITEMS.			
Operating profit/Loss	152 500	160 600	141 600	454 700
Interest income	2 000	2 000	2 000	6 000
Profit before interest expense	154 500	162 600	143 600	460 700
Interest expense	(1 800)	(1 800)	(1 800)	(5 400)
Net profit/ Loss	152 700	160 800	141 800	455 300

8. DEBTORS COLLECTION SCHEDULE

SALES			
Cash budget	←.....	CASH SALES	80 000 (40%)
Debtors' collection schedule	←.....	CREDIT SALES	120 000 (60%)
Projected Income Statement	←.....	TOTAL SALES	200 000 (100%)

- Goods are sold cash and on credit.
- The cash sales will always appear in the cash budget.
($R80\ 000 \div R200\ 000 \times 100 = 40\%$)
- The credit sales will be used to complete the debtor's collection schedule, to calculate the expected payment received from debtors based on past experiences.
($R120\ 000 \div R200\ 000 \times 100 = 60\%$)
- The total sales will always appear in the Projected Income Statement. The total sales are equal to 100%

EXAMPLE:

INFORMATION

1. Projected sales:

January	R600 000
February	R900 000
March	R750 000
April	R727 500
May	R800 000

60% of sales will be on credit.

2. Debtors are expected to pay as follows:

- 40% within the same month of sale, subject to a 5% discount.
- 35% in the month following the sale.
- 20% in the second month following the sale.
- 5% of debts are written off after 60 days.

WORKINGS:

	JAN	FEB	MARCH	APRIL	MAY
TOTAL	600 000	900 000	750 000	727 500	800 000
Cash (40%)	240 000	360 000	300 000	291 000	320 000
Credit (60%)	360 000	540 000	450 000	436 500	480 000
JAN R360 000	40% Discount: R7 200 Payment: R136 800	35% R126 000	20% R72 000	5% BAD DEBT R18 000	
FEB R540 000		40% Discount: R10 800 Payment: R205 200	35% R189 000	20% R108 000	5% BAD DEBT R27 000
MARCH R450 000			40% Discount: R9 000 Payment: R171 000	35% R157 500	20% R90 000
APRIL R436 500				40% Discount: R8 730 Payment: R165 870	35% R152 775
MAY R480 000					40% Discount: R9 600 Payment: R182 400
PAYMENT	R136 800	R331 200	R432 000	R431 370	R425 175



- Calculate the **credit sales** that should go into the debtor's collection schedule to find out the payment from debtors.
- Calculate the percentage expected from debtors for each month.
- If **discount is allowed**, first calculate the percentage expected and then calculate the discount allowed and the amount expected from debtors.

40% - 5%	X
40% = Amount Amount x 5% = Discount Amount x 95% = Payment from debtor	

- **Discount allowed** and **bad debts** is a **non-cash item**, it will appear in the Projected Income Statement.

SOLUTIONS:

DEBTORS COLLECTION SCHEDULE:

	CREDIT SALES	MARCH	APRIL	MAY
JANUARY	R360 000	R72 000		
FEBRUARY	R540 000	R189 000	R108 000	
MARCH	R450 000	R171 000	R157 500	R90 000
APRIL	R436 500		R165 870	R152 775
MAY	R480 000			R182 400
PAYMENT TO DEBTORS		R432 000	R431 370	R425 175

EXTRACT OF THE CASH BUDGET:

	MARCH	APRIL	MAY	TOTAL
Cash Receipts				
Cash sales	300 000	291 000	320 000	911 000
Cash from debtors	432 000	431 370	425 175	1 288 545

EXTRACT OF THE PROJECTED INCOME STATEMENT:

	MARCH	APRIL	MAY	TOTAL
Operating expenses				
Discount allowed	9 000	8 730	9 600	27 330
Bad debts		18 000	27 000	45 000

Always know how to work backwards.

Refer to May:

	JAN	FEB	MARCH	APRIL	MAY
MAY CREDIT SALES?					40% Discount: R9 600 Payment: ?

FINDING FIGURES:

1. To calculate the payment from debtors:

$$R9\ 600 \times \frac{95}{5} = R182\ 400$$

2. To calculate the credit sales:

$$R9\ 600 \times \frac{100}{5} = R192\ 000$$

Then

$$R192\ 000 \times \frac{100}{40} = R480\ 000$$

Alternative:

$$R182\ 400 \times \frac{100}{95} = R192\ 000$$

Then

$$R192\ 000 \times \frac{100}{40} = R480\ 000$$

3. To calculate the total cash sales:

$$R480\ 000 \times \frac{40}{60} = R320\ 000$$

Alternative:

$$R480\ 000 \times \frac{100}{60} = R800\ 000$$

Then

$$R800\ 000 - R480\ 000 = R320\ 000$$

4. To calculate the total sales:

$$R480\ 000 \times \frac{100}{60} = R800\ 000$$

FINDING PERCENTAGES:

	JAN	FEB	MARCH	APRIL	MAY
MAY R480 000					Discount: R9 600 Payment: R182 400

1. Percentage expected by debtors:

$$\frac{R192\ 000}{(R9\ 600 + R182\ 400)} \times 100 = 40\%$$

2. Percentage discount:

$R9\ 600 + R182\ 400 = R192\ 000$ $\therefore \frac{R9\ 600}{R192\ 000} \times 100 = 5\%$	<p style="text-align: center;"><u>Alternative:</u></p> $R480\ 000 \times \frac{40}{100} = R192\ 000$ $\therefore \frac{R9\ 600}{R192\ 000} \times 100 = 5\%$
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3. Percentage payment from debtors:

$R9\ 600 + R182\ 400 = R192\ 000$ $\therefore \frac{R182\ 400}{R192\ 000} \times 100 = 95\%$	<p style="text-align: center;"><u>Alternative:</u></p> $R480\ 000 \times \frac{40}{100} = R192\ 000$ $\therefore \frac{R182\ 400}{R192\ 000} \times 100 = 95\%$
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9. CREDITORS PAYMENT SCHEDULE

SALES			
	Cash budget	CASH SALES	80 000 (40%)
	Debtors' collection schedule	CREDIT SALES	120 000 (60%)
	Projected Income Statement	TOTAL SALES	200 000 (100%)

The business uses a mark-up percentage of 100% on cost.

COST OF SALES		
TRADING STOCK (CASH)	40 000	
TRADING STOCK (CREDIT)	60 000	
TOTAL	100 000	→ Projected Income Statement

TRADING STOCK			
	Cash budget	CASH (25%) 25 000	COST OF SALES (CASH) 40 000
		CREDIT (75%) 75 000	COST OF SALES (CREDIT) 60 000
	Creditors' payment schedule		TOTAL 100 000

- We need to know what the goods cost (cost of sales).
- The stock sold monthly needs to be replaced.
- We need to know how much will be bought cash and which on credit.
- We need to know when we will pay for the stock bought on credit and to take advantage of discount received for prompt payment.

EXAMPLE:

INFORMATION

- Projected sales:

January	R600 000
February	R900 000
March	R750 000
April	R727 500
May	R800 000

60% of sales will be on credit.
- Stock is replenished monthly. The business uses a mark-up of 100% on cost. 20% of stock is bought for cash. The balance is paid as follows:
 - 30% in the month of the purchase to earn a discount of 5%.
 - The balance is paid equally over 60 days.

WORKINGS:

	JAN	FEB	MARCH	APRIL	MAY
Sales	600 000	900 000	750 000	727 500	800 000
Cost of sales	(300 000)	(450 000)	(375 000)	(363 750)	(400 000)
Cash (20%)	60 000	90 000	75 000	72 750	80 000
Credit (80%)	240 000	360 000	300 000	291 000	320 000
JAN R240 000	30% R72 000 Discount: R3 600 Payment: R68 400	35% R84 000 $R240\ 000 \times 70\% = R168\ 000$	35% R84 000		
FEB R360 000		30% R108 000 Discount: R5 400 Payment: R102 600	35% R126 000 $R360\ 000 \times 70\% = R252\ 000$	35% R126 000	
MARCH R300 000			30% R90 000 Discount: R4 500 Payment: R85 500	35% R105 000	35% R105 000 $R300\ 000 \times 70\% = R210$
APRIL R291 000				30% R87 300 Discount: R4 365 Payment: R82 935	35% R101 850 $R291\ 000 \times 70\% = R203\ 700 \div 2$
MAY R320 000					30% R96 000 Discount: R4 800 Payment: R91 200
PAYMENT	R68 400	R186 600	R295 500	R313 935	R298 050

- Step 1: Calculate the cost of sales using the mark-up %.
- Step 2: Calculate the cash purchase and the credit purchase using the cost of sales figure.
- Step 3: Calculate the payment to the creditors using the credit purchases.
30% is paid in the same month which means 70% is paid equally over 60 days.
(70% ÷ 2 = 35% over each month).

30% - 5%	✗
30% = Amount Amount x 5% = Discount Amount x 95% = Payment from debtor	

SOLUTIONS:

CREDITORS PAYMENT SCHEDULE:

	CREDIT PURCHASES	MARCH	APRIL	MAY
JANUARY	240 000	84 000		
FEBRUARY	360 000	126 000	126 000	
MARCH	300 000	85 500	105 000	105 000
APRIL	291 000		82 935	101 850
MAY	320 000			91 200
PAYMENT TO CREDITORS		295 500	313 935	298 050

EXTRACT OF THE CASH BUDGET:

	MARCH	APRIL	MAY	TOTAL
Cash Receipts				
Cash Payment				
Cash purchase of trading stock	75 000	72 750	80 000	227 750
Payment to creditors	295 500	313 935	298 050	907 485

EXTRACT OF THE PROJECTED INCOME STATEMENT:

	MARCH	APRIL	MAY	TOTAL
Sales	750 000	727 500	800 000	2 277 500
Cost of Sales	(375 000)	(363 750)	(400 000)	(1 138 750)
Gross profit	375 000	363 750	400 000	1 138 750
Other operating income				
Discount received	4 500	4 365	4 800	13 665



The same as above in the debtors' schedule, know how to work backwards to find missing figures and percentages.

**10. EXAMPLES OF CHALLENGING CALCULATIONS:
LOAN & FIXED DEPOSIT**

LOAN

1. Calculate the loan amount.

EXTRACT OF THE CASH BUDGET:

	MARCH	APRIL	MAY	TOTAL
Cash Receipts				
Cash Payment				
Interest on loan	5 000	5 000	5 000	15 000

WORKINGS	ANSWER
$x \times \frac{12}{100} \times \frac{1}{12} = 5\,000$ $\therefore \frac{12x}{1\,200} = 5\,000$ $\therefore 12x = 5\,000 \times 1\,200$ $\therefore x = \frac{6\,000\,000}{12}$	R500 000
<p>Alternative:</p> $x \times \frac{12}{100} \times \frac{3}{12} = 15\,000$ $\therefore \frac{36x}{1\,200} = 15\,000$ $\therefore 36x = 15\,000 \times 1\,200$ $\therefore x = \frac{18\,000\,000}{36}$	
<p>Alternative:</p> $R5\,000 \times 12 \times \frac{100}{12} = R500\,000$	

2. Calculate the loan repayment amount.

EXTRACT OF THE CASH BUDGET:

	MARCH	APRIL	MAY	TOTAL
Cash Receipts				
Cash Payment				
Interest on loan	5 000	5 000	4 500	14 500

WORKINGS	ANSWER
$R5\ 000 - R4\ 500 = R500$ $x \times \frac{12}{100} \times \frac{1}{12} = 500$ $\therefore \frac{12x}{1\ 200} = 500$ $\therefore 12x = 500 \times 1\ 200$ $\therefore x = \frac{600\ 000}{12}$	R50 000
<p>Alternative:</p> $R5\ 000 - R4\ 500 = R500$ $R500 \times 12 \times \frac{100}{12} = R50\ 000$	
<p>Alternative:</p> <p>April</p> $x \times \frac{12}{100} \times \frac{1}{12} = 5\ 000$ $\therefore \frac{12x}{1\ 200} = 5\ 000$ $\therefore 12x = 5\ 000 \times 1\ 200$ $\therefore x = \frac{6\ 000\ 000}{12}$ $\therefore x = 500\ 000$	
<p>May</p> $x \times \frac{12}{100} \times \frac{1}{12} = 4\ 500$ $\therefore \frac{12x}{1\ 200} = 4\ 500$ $\therefore 12x = 4\ 500 \times 1\ 200$ $\therefore x = \frac{5\ 400\ 000}{12}$ $\therefore x = 450\ 000$ $R500\ 000 - R450\ 000$	

3. Calculate the % interest on loan

EXTRACT OF THE CASH BUDGET:

	MARCH	APRIL	MAY	TOTAL
Cash Receipts				
Loan received		500 000		
Cash Payment				
Interest on loan			5 000	5 000

WORKINGS	ANSWER
$R500\,000 \times \frac{x}{100} \times \frac{1}{12} = 5\,000$ $\therefore \frac{500\,000x}{1\,200} = 5\,000$ $\therefore 500\,000x = 5\,000 \times 1\,200$ $\therefore x = \frac{6\,000\,000}{500\,000}$	12%
<p>Alternative:</p> $R5\,000 \times \frac{12}{500\,000} \times 100$ $= 12\%$	

FIXED DEPOSIT

1. Calculate by how much the interest rate dropped from March to April.

EXTRACT OF THE CASH BUDGET:

	MARCH	APRIL	MAY	TOTAL
Cash Receipts				
Fixed deposit	60 000			60 000
Interest on fixed deposit	525	250	250	1 025
Cash Payment				
Fixed deposit	30 000			30 000

WORKINGS	ANSWER
<p>March</p> $R60\,000 \times \frac{x}{100} \times \frac{1}{12} = 525$ $\therefore \frac{60\,000x}{1\,200} = 525$ $\therefore 60\,000x = 525 \times 1\,200$ $\therefore x = \frac{630\,000}{60\,000}$ $\therefore x = 10,5\%$	10,5%-10% =0,5%
<p>April</p> $R30\,000 \times \frac{x}{100} \times \frac{1}{12} = 250$ $\therefore \frac{30\,000x}{1\,200} = 250$ $\therefore 30\,000x = 250 \times 1\,200$ $\therefore x = \frac{300\,000}{30\,000}$ $\therefore x = 10\%$	
<p>~~~~~</p> <p>Alternative</p> <p>March</p> $R525 \times \frac{12}{60\,000} \times 100 = 10,5\%$ $\therefore 10,5\% - 10\% = 0,5\%$	
<p>April</p> $R250 \times \frac{12}{30\,000} \times 100 = 10\%$	

2. Calculate how much was reinvested in March.

EXTRACT OF THE CASH BUDGET:

	MARCH	APRIL	MAY	TOTAL
Cash Receipts				
Fixed deposit	60 000			60 000
Interest on fixed deposit	525	200	200	925
Cash Payment				
Fixed deposit	?			?

- The interest rate is 10,5% in March and is expected to increase by 1,5% in April.

WORKINGS	ANSWER
$x \times \frac{12}{100} \times \frac{1}{12} = 200$ $\therefore \frac{12x}{1\ 200} = 200$ $\therefore 12x = 200 \times 1\ 200$ $\therefore x = \frac{240\ 000}{12}$	<p>Alternative:</p> $R200 \times \frac{100}{12} \times 12$ <p>R20 000</p>

11. INTERNAL CONTROL

- The Cash Budget and the Projected Income Statement form part of internal control.
- At the end of each month, the **actual** figures must be checked against the projected figures.
- Differences needs to be investigated.
- When comparing actual figures with budgeted figures, calculate the % variance.
- When commenting to see if we have managed our expenses well, do not just look at it as a stand a lone expense. Example, we could have overspent on advertising, but our sales went up. Comment on the advertising in relation to sales.

EXAMPLE 1: COMPARING ACTUAL FIGURES WITH BUDGETED FIGURES:

Item	Budgeted	Actual	Under/over budget
Collection from debtors	280 000	167 600	Under
Telephone	4 480	7 000	Over

COLLECTION FROM DEBTORS	
VARIANCE	PROBLEM
<ul style="list-style-type: none"> ▪ Budget R280 000 and actual R167 600. ▪ Under budget R112 400. ▪ $\frac{112\,400}{280\,000} \times 100 = 40,1\%$ 	<ul style="list-style-type: none"> ▪ Collections are much lower than expected. ▪ This will cause a cash flow problem. ▪ Internal control of debtors is poor.

TELEPHONE	
VARIANCE	PROBLEM
<ul style="list-style-type: none"> ▪ Budget R4 480 and actual R7 000. ▪ Over spent R2 520. ▪ $\frac{2\,520}{4\,480} \times 100 = 56,3\%$ 	<ul style="list-style-type: none"> ▪ Staff may possibly use the telephone for personal calls.

Note: In both cases you could be asked to give advice to solve the problem!

EXAMPLE 2: COMPARING ACTUAL FIGURES WITH BUDGETED FIGURES:

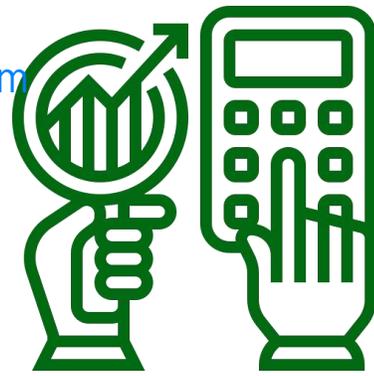
Item	Budgeted	Actual	Under/over budget
Sales	500 000	650 000	Over
Telephone	5 600	7 000	Over

- Each employee was instructed to call existing and potential clients during the month.

<ul style="list-style-type: none"> ▪ Sales increased by R150 000. The sales increased by 30% ($\frac{150\,000}{500\,000} \times 100 = 30\%$). ▪ Telephone expense increased by R1 400. The telephone expense increased by 25% ($\frac{1\,400}{5\,600} \times 100 = 25\%$). ▪ The telephone expense was well managed. Employees were instructed to phone clients. This had a positive effect on the sales as the sales increased by 30%.
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TAKE NOTE THE DIFFERENCE BETWEEN EXAMPLE 1 AND EXAMPLE 2!!!



ACCOUNTING

Grade 12

Chapter 10

Budgets

WORKSHEET



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TABLE OF CONTENTS

	Page
1. Activity 1	3
2. Activity 2	6
3. Activity 3	9
4. Activity 4	17
5. Activity 5	22

THIS BOOKLET CONTAINS 28 PAGES



ACTIVITY 1

DEBTORS COLLECTION SCHEDULE

You are provided with the information related to GNA Stationers.

REQUIRED:

- 1.1 Why is it necessary to prepare a Debtors' Collection Schedule?
- 1.2 Prepare the Debtors Collection Schedule for the months of January, February, and March 2022.
- 1.3 Calculate the total cash sales from January, February, and March.
- 1.4 Calculate the following:
 - a) The estimated bad debts to be written off for the period January to March 2022.
 - b) The total estimated amount still owed by debtors at the end of March 2022.
- 1.5 Refer to the January sales.
 - a) Calculate the percentage increase in sales.
 - b) Why are the January sales predicted to increase and then slowly decline from February?
- 1.6 Comment on the debtors' collection policy and give advice.

INFORMATION:

1. TOTAL SALES:

ACTUAL			BUDGETED		
OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH
236 000	240 000	360 000	432 000	400 000	368 000

- Credit sales amounts to 65% of the total sales.
2. Debtors are allowed 30 days to pay. Debtors pay according to the following trend:
- 30% settle in accounts in the month of sales and receive a 5% discount.
 - 45% settle accounts in the following month.
 - 18% settle accounts in the second month following the month of sale.
 - Provision is made for bad debts in the third month following the month of sale.

ANSWER BOOK

ACTIVITY 1

DEBTORS COLLECTION SCHEDULE

1.1 Why is it necessary to prepare a Debtors' Collection Schedule?



1.2 Prepare the Debtors Collection Schedule for the months of January, February, and March 2022.

	CREDIT SALES	JANUARY	FEBRUARY	MARCH
November				
December				
January				
February				
March				
PAYMENT TO DEBTORS				

1.3 Calculate the total cash sales from January, February, and March.

JANUARY	FEBRUARY	MARCH

1.4 Calculate the following:

- a) The estimated bad debts to be written off for the period January to March 2022.

WORKINGS	ANSWER

- b) The total estimated amount still owed by debtors at the end of March 2022.

WORKINGS	ANSWER

1.5 Refer to the January sales.

- a) Calculate the percentage increase in sales.

WORKINGS	ANSWER

- b) Why are the January sales predicted to increase and then slowly decline from February?

--

1.6 Comment on the debtors' collection policy and give advice

DEBTORS' COLLECTION POLICY	ADVICE
	

ACTIVITY 2

CREDITORS PAYMENT SCHEDULE

You are provided with the information related Choc Chip Biscuits for the forecast period 1 January 2022 to 31 May 2022. The business sells biscuits which has a shelf life of 1 month.

REQUIRED:

- 2.1 Complete the table on your Answer book to calculate the Gross Profit from January to May 2022. Calculations must be rounded off to the nearest Rand.
- 2.2 Prepare the Creditors Payment Schedule.
- 2.3 If the expected yearly cost of sales is R6 500 000, calculate the number of months for which there is enough stock on hand. Explain whether this is appropriate for the business.
- 2.4 Give three disadvantages of keeping to much stock.

INFORMATION:

1. TOTAL CREDIT SALES:

ACTUAL		BUDGETED		
JANUARY	FEBRUARY	MARCH	APRIL	MAY
420 000	432 000	450 000	456 000	457 200

- 60% of sales were on credit and 40% were cash sales.

2. **ADDITIONAL INFORMATION:**

- All goods are sold at a mark-up of $33\frac{1}{3}\%$ on cost.
- Credit purchases amount to 80% of all purchases.
- Creditors are paid as follows:
70% in the month of the purchase to earn a 2,5% discount.
30% in the month following the purchase.
- Stock will be replenished monthly. The company aims to keep a fixed base inventory level of R500 000.

ANSWER BOOK

ACTIVITY 2

CREDITORS PAYMENT SCHEDULE

2.1 Complete the table on your Answer book to calculate the Gross Profit from January to May 2022. Calculations must be rounded off to the nearest Rand.

	JAN	FEB	MARCH	APRIL	MAY
Sales					
Cost of sales					
Gross Profit					

2.2 **CREDITORS PAYMENT SCHEDULE**

	CREDIT PURCHASES	MARCH	APRIL	MAY
FEBRUARY				
MARCH				
APRIL				
MAY				
PAYMENT TO CREDITORS				

2.3 If the expected yearly cost of sales is R6 500 000, calculate the number of months for which there is enough stock on hand. Explain whether this is appropriate for the business.

Stock holding period:

Comment if this is appropriate for the business:

2.4 Give three disadvantages of keeping too much stock.



ACTIVITY 3

3.1 CASH BUDGET AND PROJECTED INCOME STATEMENT

The information provided was taken from the records of Cool Traders their financial year ended 31 August 2022.

REQUIRED:

- 3.1.1 Explain the difference between the cash budget and projected income.
- 3.1.2 Mention two incomes that will not be included under receipts in the Cash Budget.
- 3.1.3 Refer to **TRANSACTION 1**.
 - a) Complete the Asset Disposal account on equipment sold.
 - b) Calculate the depreciation rate on vehicles.
- 3.1.4 Indicate amounts in the appropriate block for the Cash Budget and Projected Income Statement for the month ending 30 September 2022.

TRANSACTIONS:

1.	FIXED ASSETS	DATE OF PURCHASE	COST PRICE	ACCUMULATED DEPRECIATION ON 31 AUGUST 2022
	Equipment	31 August 2019	R230 000	R150 000
	Vehicles	1 March 2022	R340 000	R34 000

- An old tablet will be sold for cash on 30 September 2022. The cost price of the tablet was R12 000, the accumulated depreciation on 31 August 2022 amounted to R7 200. The business is expected to make a profit of R800.
 - Depreciation on equipment is calculated at 15% p.a on cost.
 - Depreciation on vehicles is calculated using diminishing balance method.
2. The owner plans to withdraw R30 000 in cash for personal use.
3. Projected sales, R400 000. The business uses a mark-up of 60% on cost. 75% of all sales are on credit. The rest is for cash.
4. On 1 September 2022, R80 000 will be invested in a fixed deposit at 10,5% interest p.a. Interest is not capitalized and will be received every quarter.
5. The rent paid for the financial year ended 31 August 2022 amounted to R166 560. This included the rent for September 2022. The rent contract stipulates that the rent will increase by 8% every year on 1 November.
6. Goods were purchase on credit in August. Creditors are paid in the month following the month of purchase to take advantage of a 5% discount. The business is expected to receive R3 750 discount in September.

7. The maintenance and repairs of R16 000 per month is expected to reduce by 7% during September.
8. A sixth-month insurance contract for R9 000 will be paid on 25 September 2022. R3 000 of this amount relates to the next financial year.
9. The business has 5 employees. The details for each employee each month are as follow:

Gross wage	Deductions	Contributions
R6 500	1% towards UIF	1% towards UIF
	5% towards Pension Fund	10% towards the Pension Fund.

- The employee who are owed his August wage, will be paid in September.
10. Trading stock were damaged due to a waterpipe that burst during August. The total loss was R9 000. The insurance company agreed to cover 80% of the total damage. The money is expected to be paid into our bank account in September.

3.2 INTERPRETATION OF BUDGETS

REQUIRED

3.2.1 Refer to **INFORMATION A: Debtors' Collection Schedule**

- Complete the Debtors collection Schedule by filling in the missing amounts.
- Calculate the % debtors written off as irrecoverable.

3.2.2 Refer to **INFORMATION B.**

A new competitor commenced trading in the area in May 2022.

- Provide figures to illustrate the impact on sales in May.
- Explain THREE decisions that the owner took in June in response to the new competitor. Quote figures or a calculation.



INFORMATION:

A. DEBTORS COLLECTION SCHEDULE

	CREDIT SALES	APRIL	MAY	JUNE
February	540 000	97 200		
March	?	?	100 800	
April	532 000	101 080	?	?
May	500 000		?	300 000
June	568 000			?
PAYMENT TO DEBTORS				

- Debtors are allowed a 5% discount for prompt payment in the same month.
- Debtors are written off as bad debts in the third month.

B. EXTRACT FROM THE PROJECTED INCOME STATEMENT

	MAY		JUNE	
	Projected	Actual	Projected	Actual
Item sold	2 200	1 950	2 500	3 100
Selling price per item	R375	R375	R375	R350
Cost price per item	R250	R250	R250	R200
Sales	R825 000	R731 250	R937 500	R1 085 000
Cost of sales	(R550 000)	(R487 500)	(R625 000)	(R620 000)
Gross Profit	R275 000	R243 750	R312 500	R465 000
Commission: Salesperson	55 000 <i>2 employees</i>	55 000	55 000 <i>2 employees</i>	82 500
Salary	40 000 <i>2 employees</i>	40 000	40 000 <i>2 employees</i>	20 000
Advertising	20 000	20 000	20 000	24 000
Staff training	8 000	8 000	8 000	13 800

ANSWER BOOK

ACTIVITY 3

3.1 CASH BUDGET AND PROJECTED INCOME STATEMENT

3.1.1 Explain the difference between the cash budget and projected income.

Cash Budget
Projected Income Statement

3.1.2 Mention two incomes that will not be included under receipts in the Cash Budget.

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3.1.3 Refer to **TRANSACTION 1**.

a) Complete the Asset Disposal account on equipment sold.

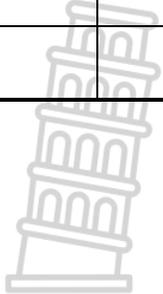
ASSET DISPOSAL					

b) Calculate the depreciation rate on vehicles.



3.1.4 Indicate amounts in the appropriate block for the Cash Budget and Projected Income Statement for the month ending 30 September 2022.

Transaction	SEPTEMBER 2022			
	Cash Budget		Projected Income Statement	
	Receipt	Payment	Income	Expense
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				



WORKINGS:

TRANSACTION 1:

Depreciation on equipment:

	
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Depreciation on vehicles:

TOTAL DEPRECIATION:

--	--

TRANSACTION 5: Rent expense

--	--

TRANSACTION 6: Payment to creditors



TRANSACTION 9: Wages



3.2 INTERPRETATION OF BUDGETS

3.2.1 DEBTORS COLLECTION SCHEDULE

	CREDIT SALES	APRIL	MAY	JUNE
February	540 000	97 200		
March			336 000	
April	532 000	101 080		
May	500 000			300 000
June	568 000			
PAYMENT TO DEBTORS				

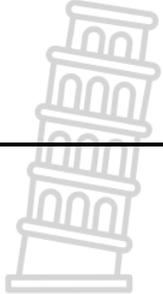
Calculate the % debtors written off as irrecoverable.

3.2.2 A new competitor commenced trading in the area in May 2022.

Provide figures to illustrate the impact on sales in May.



Explain THREE decisions that the owner took in June in response to the new competitor. Quote figures or a calculation.

Decision 1	
Decision 2	
Decision 3	

ACTIVITY 4

REQUIRED:

4.1 Complete the following statement:

The main reason why trading stock deficit would not appear in the Cash Budget is because it is a/an

4.2 Complete the Debtors' Collection Schedule.

4.3 Calculate the total discount allowed during the budget period.

4.4 Calculate the following missing amounts indicated by **(i)** to **(vii)** in the Cash Budget for April and May 2022.

4.5 **Refer to information A.**

- Calculate the % increase in rent.
- The owner is considering buying his own premises. What would the owner need to consider in the cash budget during June.

4.6 The budgeted and actual figures for **March** are provided. The owner is concerned about the discrepancies between the actual and budgeted amounts.

- Comment on the control over the expenses. Quote figures. Give advice regarding each item.

	MARCH	
	BUDGETED	ACTUAL
Sales	R740 000	R592 000
Advertising	R37 000	R41 440
Delivery cost to customers	R59 200	R50 912
Repairs on vehicles	R20 000	R0

4.7 **Refer to information A**

The workers are dissatisfied with the increases they are going to receive in May. They have not received a salary increase the past two years and had to work part time due to covid. They indicated that they would strike if the owner does not pay attention to their grievances as the cost of living increased substantially.

- Give a reason (with figures) that the **owner** can use to justify the increase he granted to the workers in May 2022.
- Give a reason (with figures) why the **employees** can feel justified in their grievances.

INFORMATION

A. Extract from the Cash Budget for the two months ending May 2022.

RECEIPTS	APRIL	MAY
Cash sales	396 000	(i)
Commission income	45 000	(ii)
TOTAL RECEIPTS		
PAYMENTS		
Cash purchases	(iii)	46 800
Payment to creditors	(iv)	280 500
Rent expense	18 000	19 800
Salary: Manager	30 000	33 600
Salary: Workers (6 employees)	60 000	63 000
Delivery cost to customers	52 800	49 920
Repairs on vehicles	(v)	21 218
Advertising	33 000	31 200
TOTAL PAYMENTS		
Cash surplus/ deficit	48 000	(vii)
Bank balance at the beginning of the month	(vi)	68 000
Bank balance at the end of the month.	68 000	(23 000)

B. Debtors are paid according to the following trend:

- 55% - 30 days after the sale. 2,5% discount is allowed for prompt payment.
- 25% - 60 days after sale
- 18% - 90 days after sale

The rest is written off as irrecoverable 120 days after the sale.

C. Purchases and payments to creditors.

- 85% of stock is purchased on credit.
- Stock sold is replaced in the month of sales.
- Creditors are paid one months after the purchase month.

D. Additional information

- Delivery cost is budgeted at 8% of sales. All goods are delivered to customers within 50km from premises are free of charge. Thereafter, the business charges a fixed amount of R250 for a delivery.
- The commission income is expected to decrease by 20%.
- Repairs to vehicles is expected to increase by 3% from 1 May.

ANSWER BOOK

ACTIVITY 4

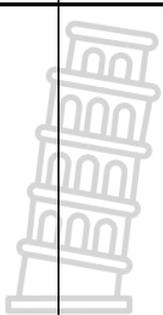
4.1 Complete the following statement:

The main reason why trading stock deficit would not appear in the Cash Budget is because it is a/an

4.2 Complete the Debtors' Collection Schedule.

	CREDIT SALES	APRIL	MAY
JAN	328 000		
FEB	320 000		
MARCH	296 000		
APRIL			
MAY	249 600		
PAYMENT TO DEBTORS			

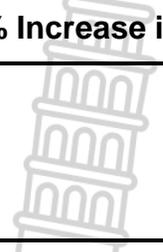
4.3 Calculate the total discount allowed during the budget period.

WORKINGS	ANSWER
	

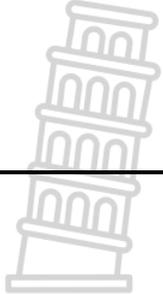
4.4 Calculate the following missing amounts indicated by (i) to (vii) in the Cash Budget for April and May 2022.

	WORKINGS	ANSWER
i)		
ii)		
iii)		
iv)		
v)		
vi)		
vii)		

4.5 Refer to information A.

% Increase in rent

Items to include in the Cash Budget for June:

4.6 Comment on the control over the expenses. Quote figures. Give advice regarding each item.

EXPENSE	COMMENT & FIGURES	ADVICE
Advertising		
Delivery cost to customers		

EXPENSE	COMMENT & FIGURES	ADVICE
Repairs to vehicles		

ACTIVITY 5

You are provided with the information from Sparkling Clean Limited. The company sells mops and does not sell on credit. They also offer cleaning services. The financial year ends 30 September each year.

The company has an authorised share capital of 2 500 000 of which 60% had been in issue on 1 September 2021.

REQUIRED:

- 5.1 Complete the Creditors Payment Schedule from July to September 2022.
- 5.2 Complete the Projected Income Statement for September 2022. Show your calculations next to each item.
- 5.3 Refer to **information C and H**.
 - Calculate the fixed deposit amount received during September.
 - Calculate the % cash bonus the directors received during August.
 - Calculate the number of shares in issue on 30 September 2022.

- 5.4 Refer to **information C and G**.

The internal auditor has noticed the following during August 2022:

	BUDGETED	ACTUAL	VARIANCE
Cash sales	549 000	670 000	+22%
Fee income	220 000	165 000	-25%
Consumable stores	77 000	61 900	-19,6%
Packing materials	43 920	52 300	+19,1%

Comment on the control of packing materials and consumable stores. Quote figures and calculations.

5.5 Refer to **information C**

The company would like to expand in the new financial year. They expect to raise money during September but noticed that they will need another R480 000. They approach Money bank who offered them the loan at an interest rate of 12,5% p.a. A fixed monthly instalment of R7 000 (to cover loan repayments and interest) must be paid over the full period of the loan. The interest will decline over the life of the loan. If the company does expand, the projections are that the company will increase their profits by 18% in the first year.

- Identify THREE ways in which the company is expected to raise capital.
- Based on the Projected Income Statement for September, should the company borrow an additional R480 000? Quote figures to motivate your answer.

INFORMATION:

A. **Mark-up %, sales and fee income:**

ACTUAL SALES		PROJECTED SALES		
May	June	July	August	September
R476 000	R459 000	R510 000	R549 000	R648 000

The mark-up% will increase from 70% to 80% from 1 August 2022.

ACTUAL FEE INCOME		PROJECTED FEE INCOME		
May	June	July	August	September
R230 000	R245 000	R241 000	R220 000	<i>Decrease by 5%</i>

B. **Purchases and payments to creditors:**

- 10% of stock is bought cash and the rest on credit.
- Stock sold is replaced in the month of sales.
- Some creditors offer a discount for payment in the month of purchases.
- 60% is paid in the month of purchase to earn a 5% discount.
- 32% is settled in the month after the purchase transaction month.
- 8% is settled in the second month after the purchase transaction month.



C. **Cash budget for August and September.**

	AUGUST		SEPTEMBER
RECEIPTS	BUDGETED	ACTUAL	BUDGETED
Cash sales	549 000	670 000	648 000
Fee Income	220 000	165 000	?
Proceeds from shares issued (R4,50 per share)			900 000
Interest on fixed deposit (6%p.a.)	4 300	4 300	2 100
Disposal of equipment			13 750
Fixed deposit matured	0	0	?
PAYMENTS			
Cash purchase of stock	30 500	37 210	36 000
Payment to creditors			
Audit fees			60 000
Directors fee	153 000	153 000	?
SARS: Income tax	0	0	45 000
Salaries and wages	76 800	76 800	?
UIF and Pension Fund	32 400	32 400	?
Rent expense	75 000	75 000	?
Consumable stores	77 000	61 900	?
Packing materials	43 920	52 300	77 760

D. **Salaries and wages:**

- The salaries and wages consist of net salaries and wages. The salaries and wages consist of the following:

DEDUCTIONS			CONTRIBUTIONS	
PAYE	UIF	Pension Fund	UIF	Pension Fund
25%	1%	10%	1%	15%

- The company is planning to stop the contribution towards the Pension Fund from 1 September 2022.

E. **Equipment and Vehicles**

- The company is expected to sell some of the old equipment for cash on 1 September 2022. The carrying value on 31 August 2022 is R23 250.
- The total depreciation expected for September – R14 850.

F. **Rent expense**

The company moved to new premises on 1 August 2022. They had to pay a deposit equivalent to 2 months' rent.

G. **Consumable stores**

- Consumable stores are used for the cleaning services.
- The consumable stores are calculated as a percentage of the fee income. It is expected that the consumable stores as a percentage on fee income will increase by 3% in September.

H. **Director's fee**

The company has three directors who earn the same monthly fee. One director will retire from 1 September 2022. The directors received a cash bonus of R21 000 each during August.

I. **Income Tax**

Income tax is calculated at 30% of the net profit.

ANSWER BOOK
ACTIVITY 5

5.1 Complete the Creditors Payment Schedule from July to September 2022.

	CREDIT PURCHASES	JULY	AUGUST	SEPTEMBER
May				
June				
July				
August				
September				
PAYMENT TO CREDITORS				



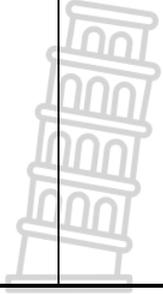
5.3 Calculate the fixed deposit amount received during September.

WORKINGS	ANSWER
	

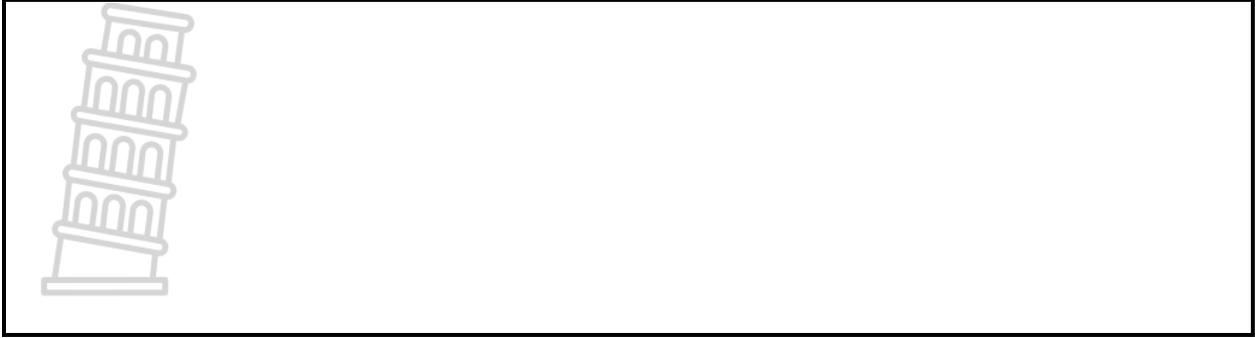
Calculate the % cash bonus the directors received during August.

WORKINGS	ANSWER

Calculate the number of shares in issue on 30 September 2022.

WORKINGS	ANSWER
	

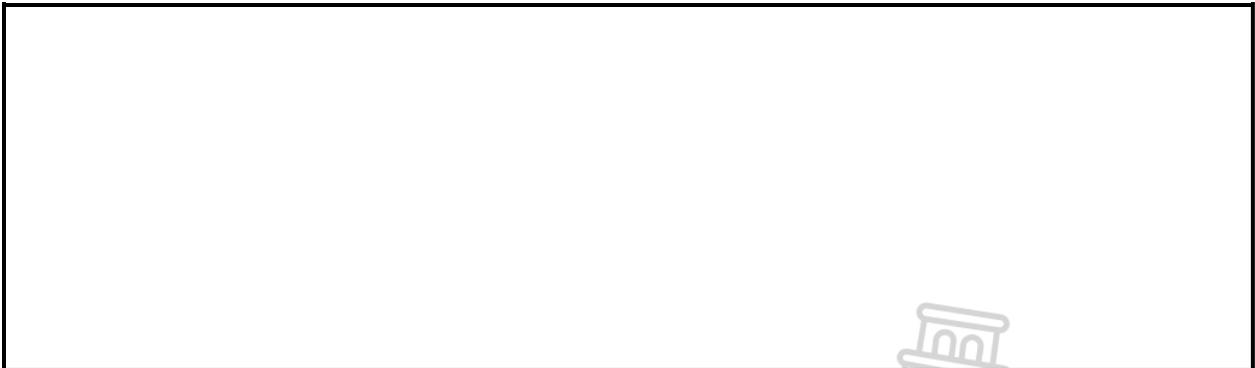
5.4 Comment on the control of consumable stores. Quote figure or calculations.



Comment on the control of packing materials. Quote figures or calculations.

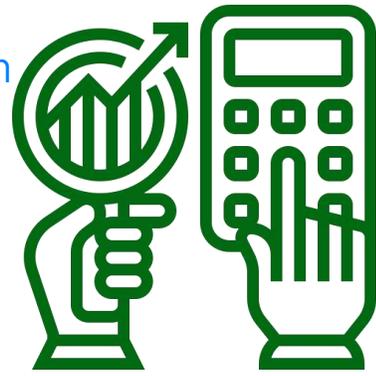


5.5 Identify THREE ways in which the company is expected to raise capital.



Based on the Projected Income Statement for September, should the company borrow an additional R480 000? Quote figures to motivate your answer.





ACCOUNTING

Grade 12

Chapter 10

Budgets

WORKSHEET - MEMO



Compiled by
MRS BRIMECOMBE

	TABLE OF CONTENTS	Page
1.	Activity 1	3
2.	Activity 2	5
3.	Activity 3	7
4.	Activity 4	13
5.	Activity 5	17

THIS BOOKLET CONTAINS 20 PAGES



ACTIVITY 1

DEBTORS COLLECTION SCHEDULE

1.1 Why is it necessary to prepare a Debtors' Collection Schedule?

- Goods are sold for cash and on credit.
- A business needs to work out how much cash will be collected each month from its projected sales so that it can prepare an accurate Cash Budget to plan its monthly payments accurately.

WORKINGS:

	OCT	NOV	DEC	JAN	FEB	MARCH
TOTAL	236 000	240 000	360 000	432 000	400 000	368 000
Cash (35%)	82 600	84 000	126 000	151 200	140 000	128 800
Credit (65%)	153 400	156 000	234 000	280 800	260 000	239 200
OCT	30%	45%	18%	7% BD		
NOV		30%	45%	18%	7% BD	
DEC			30%	45%	18%	7% BD
JAN				30%	45%	18%
FEB					30%	45%
MARCH						30%

1.2 Prepare the Debtors Collection Schedule for the months of January, February, and March 2022.

	CREDIT SALES	JANUARY	FEBRUARY	MARCH
November	156 000	28 080		
December	234 000	105 300	42 120	
January	280 800	80 028	126 360	50 544
February	260 000		74 100	117 000
March	239 200			68 172
PAYMENT TO DEBTORS		213 408	242 580	235 716

1.3 Calculate the total cash sales from January, February, and March.

JANUARY	FEBRUARY	MARCH
432 000 X 35% = 151 200	400 000 X 35% = 140 000	368 000 X 35% = 128 800

1.4 Calculate the following:

a) The estimated bad debts to be written off for the period January to March 2022.

WORKINGS	ANSWER
October: 153 400 x 7% = 10 738 November: 156 000 x 7% = 10 920 December: 234 000 x 7% = 16 380	38 038

b) The total estimated amount still owed by debtors at the end of March 2022.

WORKINGS	ANSWER
January: 280 800 x 7% = 19 656 February: 260 000 x 25% = 65 000 March: 239 200 x 70% = 167 440	252 096

1.5 Refer to the January sales.

a) Calculate the percentage increase in sales.

WORKINGS	ANSWER
$\frac{72\,000}{(432\,000 - 360\,000)} \times 100$	20%

b) Why are the January sales predicted to increase and then slowly decline from February?

- The business sells stationery.
- January is the beginning of the year before the schools starts and they anticipate that the demand for stationery will then increase.

1.6 Comment on the debtors' collection policy and give advice

DEBTORS' COLLECTION POLICY	ADVICE
<p>75% of the debtors does settle their accounts in 30 days.</p> <p>18% of the debtors settle their account after 60 days and 7% of debtors is written off after 90 days.</p> <p>Although most debtors are settling their account in 30 days, more can be done with the 18% that is only settling their account after 60 days and 7% written off after 90 days.</p>	<p>Charge interest on overdue debtors' account.</p> <p>Send out statement before the end of the month.</p> <p>Follow up with outstanding debtors.</p>

ACTIVITY 2

CREDITORS PAYMENT SCHEDULE

WORKINGS:

	JAN	FEB	MARCH	APRIL	MAY
Cash Sales (40%)	280 000	288 000	300 000	304 000	304 800
Credit sales (60%)	420 000	432 000	450 000	456 000	457 200
Sales (100%)	700 000	720 000	750 000	760 000	762 000
Cost of sales	(525 000)	(540 000)	(562 500)	(570 000)	(571 500)
$CP = SP \times \frac{100}{133.333}$					
Cash (20%)	105 000	108 000	112 500	114 000	114 300
Credit (80%)	420 000	432 000	450 000	456 000	457 200
Jan	70%	30%			
Feb		70%	30%		
March			70%	30%	
April				70%	30%
May					70%

2.1 Complete the table on your Answer book to calculate the Gross Profit from January to May 2022. Calculations must be rounded off to the nearest Rand.

	JAN	FEB	MARCH	APRIL	MAY
Sales	700 000	720 000	750 000	760 000	762 000
Cost of sales	(525 000)	(540 000)	(562 500)	(570 000)	(571 500)
Gross Profit	175 000	180 000	187 500	190 000	190 500

2.2 CREDITORS PAYMENT SCHEDULE

	CREDIT PURCHASES	MARCH	APRIL	MAY
FEBRUARY	432 000	129 600		
MARCH	450 000	307 125	135 000	
APRIL	456 000		311 220	136 800
MAY	457 200			312 039
PAYMENT TO CREDITORS		436 725	446 220	448 839

2.3 If the expected yearly cost of sales is R6 500 000, calculate the number of months for which there is enough stock on hand. Explain whether this is appropriate for the business.

Stock holding period:
$\frac{\frac{1}{2}(500\,000 + 500\,000)}{6\,500\,000} \times \frac{365}{1}$ $= \frac{500\,000}{6\,500\,000} \times \frac{365}{1}$ $= 28,1 \text{ days}$
Comment if this is appropriate for the business:
Yes The period of stock on hand is less than 1 month.

2.4 Give three disadvantages of keeping too much stock.

- Inventory can become obsolete.
- Inventory can go out of fashion.
- Too much working capital into inventory.

ACTIVITY 3

3.1 CASH BUDGET AND PROJECTED INCOME STATEMENT

3.1.1 Explain the difference between the cash budget and projected income.

Cash Budget
<ul style="list-style-type: none"> ▪ The expected bank balance at the end of budget period. ▪ The expected cash receipts and payments over the budget period. ▪ The expected deficit or surplus over the budget period.
Projected Income Statement
<ul style="list-style-type: none"> ▪ The expected net profit or loss for the budgeted period. ▪ The expected income and expenses for budget period.

3.1.2 Mention two incomes that will not be included under receipts in the Cash Budget.

- Discount received
- Profit on disposal of asset
- Trading stock surplus
- Provision for bad debts adjustment

3.1.3 Refer to **TRANSACTION 1**.

a) Complete the Asset Disposal account on equipment sold.

ASSET DISPOSAL					
2022 Sept	Equipment	12 000	2022 Sept	Accumulated depreciation on equipment (7 200 + 150)	7 350
	Profit on disposal of asset	800		Bank	5 450
		<u>12 800</u>			<u>12 800</u>

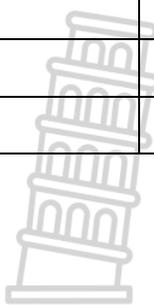
b) Calculate the depreciation rate on vehicles.



$R340\,000 \times \frac{x}{100} \times \frac{6}{12} = R34\,000$ $\therefore \frac{R2\,040\,000x}{1\,200} = R34\,000$ $\therefore R2\,040\,000x = R34\,000 \times 1\,200$ $\therefore \frac{R2\,040\,000x}{R2\,040\,000} = \frac{R40\,800\,000}{R2\,040\,000}$ $\therefore x = 20\%$	Alternative: $\frac{34\,000}{340\,000} \times \frac{12}{6} \times 100 = 20\%$
---	--

3.1.4 Indicate amounts in the appropriate block for the Cash Budget and Projected Income Statement for the month ending 30 September 2022.

Transaction	SEPTEMBER 2022			
	Cash Budget		Projected Income Statement	
	Receipt	Payment	Income	Expense
1	5 450		800	7 975
2		30 000		
3	100 000		400 000	250 000
4		80 000	700	
5				12 960
6		71 250	3 750	
7		14 880		14 880
8		9 000		1 500
9		42 185		36 075
10	36 000			



WORKINGS:

TRANSACTION 1:	
Depreciation on equipment:	
<p><u>Sold:</u> $R12\ 000 \times 15\% \times \frac{1}{12} = R150$</p>	<p><u>Remaining:</u> $(R230\ 000 - R12\ 000) \times 15\% \times \frac{1}{12}$ $= R2\ 725$</p>
Depreciation on vehicles:	TOTAL DEPRECIATION:
$(R340\ 000 - R34\ 000) \times 20\% \times \frac{1}{12}$ $= R5\ 100$	$R150 + R2\ 725 + R5\ 100$ $= R7\ 975$
TRANSACTION 5: Rent expense	
$2 \times 100 = 200$ $11 \times 108 = 1\ 188$ $\therefore \frac{108}{1\ 388} \times R166\ 560 = R12\ 960$	$2x \times 11 \left(x \times \frac{108}{100} \right) = 166\ 560$ $\therefore \frac{13,88x}{13,88} = \frac{166\ 560}{13,88}$ $\therefore x = 12\ 000$ $\therefore 12\ 000 \times \frac{108}{100} = 12\ 960$
TRANSACTION 6: Payment to creditors	
$R3\ 750 \times \frac{95}{100} = R3\ 562,50$	
TRANSACTION 9: Wages	
<p>Gross wage: $5 \times R6\ 500 = R32\ 500$ UIF contribution: $R32\ 500 \times 1\% = R325$ Pension contribution: $R32\ 500 \times 10\% = R3\ 250$ Total expense: $R32\ 500 + R325 + R3\ 250 = R36\ 075$ or $R6\ 500 \times \frac{111}{100} = R7\ 215 \times 5 = R36\ 075$ Net wage: $R32\ 500 - R325 - R1\ 625 (R32\ 500 \times 5\%) = R30\ 550$ or $R6\ 500 \times 94\% = R6\ 110 \times 5 = R30\ 550$ UIF payment: $R325 + R325 = R650$ Pension Fund payment: $R3\ 250 + R1\ 625 = R4\ 875$ Total payment: $R30\ 550 + R650 + R4\ 875 = R36\ 075$ $R36\ 075 + R6\ 110 (R30\ 550 \div 5) = R42\ 185$</p>	

3.2 INTERPRETATION OF BUDGETS

3.2.1 DEBTORS COLLECTION SCHEDULE

	CREDIT SALES	APRIL	MAY	JUNE
February	540 000	97 200		
March	560 000	336 000	100 800	
April	532 000	101 080	319 200	95 760
May	500 000		95 000	300 000
June	568 000			107 920
PAYMENT TO DEBTORS				

WORKINGS:					
(100%)	Feb	March	April	May	June
Feb R540 000	20% (540 000 × 20%) R108 000 DA: R5400 R102 600	60% R324 000 (540 000 × 60%)	18% R97 200 $\left(\frac{97\,200}{540\,000} \times 100\right)$	2%BD R10 800 (540 000 × 2%)	
March R560 000 $\frac{100\,800}{18} \times 100$		20% R112 000 DA: R5 600 R106 400	60% R336 000 (560 000 × 60%)	18% R100 800	2%BD R11 200 (560 000 × 2%)
April R532 000			20% R106 400 $\left(\frac{106\,400}{532\,000} \times 100\right)$ DA-R5 320 R101 080	60% R319 200 (532 200 × 60%)	18% R95 760 (532 000 × 18%)
May R500 000				20% R100 000 DA-R5 000 R95 000	60% R300 000 $\left(\frac{300\,000}{500\,000} \times 100\right)$
June R568 000					20% R113 600 DA-R5 680 R107 920
	R102 600	R430 400	R534 280	R515 000	R503 680

<p>February:</p> $\frac{97\,200}{540\,000} \times 100 = 18\%, 60 \text{ days (2nd month after the transactions)}$
<p>April:</p> $\frac{101\,080}{95} \times 100 = 106\,400$ $\therefore \frac{106\,400}{532\,000} \times 100 = 20\% \text{ (same month)}$ $R532\,000 \times 18\% = R95\,760 \text{ (Collection in June)}$
<p>May:</p> $\frac{300\,000}{500\,000} \times 100 = 60\%, 30 \text{ days (first month after transaction month)}$
<p>Credit sales for March:</p> $\frac{R100\,800}{18} \times 100 = 560\,000$
<p>May:</p> $R500\,000 \times 20\% = R100\,000$ $R100\,000 \times 95\% = R95\,000$
<p>June:</p> $R568\,000 \times 20\% = R113\,600$ $R113\,600 \times 95\% = R107\,920$

Calculate the % debtors written off as irrecoverable.

<p>April:</p> $\frac{101\,080}{95} \times 100 = 106\,400$ $R532\,000 - R106\,400 - R319\,200 - R95\,760 = R10\,640$ $\frac{10\,640}{532\,000} \times 100 = 2\%$																							
<p>Alternative:</p> <table border="1"> <thead> <tr> <th>Credit sales</th> <th>Feb</th> <th>March</th> <th>April</th> <th>May</th> <th>June</th> </tr> </thead> <tbody> <tr> <td>(100%)</td> <td>20%</td> <td>60%</td> <td>18%</td> <td>2%BD</td> <td></td> </tr> <tr> <td></td> <td colspan="3" style="text-align: center;">98%</td> <td></td> <td></td> </tr> </tbody> </table>	Credit sales	Feb	March	April	May	June	(100%)	20%	60%	18%	2%BD			98%									
Credit sales	Feb	March	April	May	June																		
(100%)	20%	60%	18%	2%BD																			
	98%																						

3.2.2 A new competitor commenced trading in the area in May 2022.

Provide figures to illustrate the impact on sales in May.

- The budget sales were R825 000, but the actual was R731 250. The actual sales were R93 750 less (11,3%) than budgeted.
- or
- The number of units sold budgeted were 2 200 but the actual was 1 950. The actual was 250 less (11,3%) than budgeted.

Explain THREE decisions that the owner took in June in response to the new competitor. Quote figures or a calculation.

Decision 1	Although the mark-up % increased from 50% to 75%, the selling price was reduced from R375 per item to R350 per item. The cost price was also reduced from R250 to R200. This had a positive affect on the number of items sold. The number of items sold was 600 more than budgeted and the business increased their gross profit from R312 500 to R465 000.
Decision 2	The business budgeted R20 000 for advertising but overspent by R4 000 (20%). This had a positive affect on sales as more units were sold than budgeted.
Decision 3	<p>The business shuffled the staff members and provided training. The business budgeted R40 000 on salaries and only spend R20 000. The number of staff members who earns a salary were reduced to 1 and were allocated to the sales department. More money was spent on commission on sales. The budgeted was R55 000 but the actual was R82 500. The number of employees increased from 2 employees to 3 employees.</p> <p>The business budgeted R8 000 for training but the actual was R13 800. An increase of 72,5%. The sales increased by 15,7%.</p>

ACTIVITY 4

4.1 Complete the following statement:

The main reason why trading stock deficit would not appear in the Cash Budget is because it is a/an

A non cash item.

WORKINGS:

% Cash and credit sales:

March: $\frac{296\ 000}{740\ 000} \times 100 = 40\%$

April: $R396\ 000 \times \frac{60}{40} = R264\ 000$

	Jan	Feb	March	April	May
TOTAL	328 000	320 000	296 000	264 000	249 600
Jan		55%	25%	18% R59 040	
Feb			55%	25% R80 000	18% R57 600
March				55% R162 800 DA-R4 070 R158 730	25% R74 000
April					55% R145 200 DA-R3 630 R141 570
May					-

4.2 Complete the Debtors' Collection Schedule.

	CREDIT SALES	APRIL	MAY
JAN	328 000	59 040	
FEB	320 000	80 000	57 600
MARCH	296 000	158 730	74 000
APRIL	264 000		141 570
MAY	249 600		-
PAYMENT TO DEBTORS			

4.3 Calculate the total discount allowed during the budget period.

WORKINGS	ANSWER
March credit sales: $R296\ 000 \times 55\% = R162\ 800$ $R162\ 800 \times 2,5\% = R4\ 070$	R7 700
April credit sales: $R264\ 000 \times 55\% = R145\ 200$ $R145\ 200 \times 2,5\% = R3\ 630$	

4.4 Calculate the following missing amounts indicated by (i) to (vii) in the Cash Budget for April and May 2022.

	WORKINGS	ANSWER
i)	% credit sales for March: $\frac{296\ 000}{740\ 000} \times 100 = 40\%$ $100\% - 40\% = 60\%$ cash sales May: $R249\ 600 \times \frac{60}{40} = R374\ 400$ Alternative using delivery cost: $R49\ 920 \times \frac{100}{8} = R624\ 000$ $\therefore R624\ 000 - R249\ 600 = R374\ 400$	R374 400
ii)	$R45\ 000 \times 80\%$	R36 000
iii)	$R280\ 500 \times \frac{15}{85} = R49\ 500$ Or $R280\ 500 \times \frac{100}{85} = R330\ 000 \quad \therefore R330\ 000 \times 15\% = R49\ 500$	R49 500
iv)	April: Cost of sales: $R280\ 500 \times \frac{100}{85} = R330\ 000$ Mark %: Total sales: $R396\ 000 + R264\ 000$ $\frac{(660\ 000 - 330\ 000)}{330\ 000} \times 100 = 100\%$ $\therefore 740\ 000 \times \frac{100}{200} = R370\ 000 \times 85\% = R314\ 500$	R314 500

	WORKINGS	ANSWER
v)	$R21\ 218 \times \frac{100}{103}$	R20 600
vi)	R68 000 – R48 000	R20 000
vii)	R68 000 + R23 000	(R91 000) or R91 000 deficit

4.5 Refer to information A.

% Increase in rent
$\frac{1\ 800}{18\ 000} \times 100 = 10\%$
Items to include in the Cash Budget for June:
<ul style="list-style-type: none"> ▪ Rent income if the owner considers renting out some of the premises. ▪ Rates and taxes ▪ Repairs on building ▪ Insurance on property ▪ Repayment of loan which will include the capital amount and interest.



4.6 Comment on the control over the expenses. Quote figures. Give advice regarding each item.

EXPENSE	COMMENT & FIGURES	ADVICE
Advertising	<p>Overspent by R4 440 (by 12%).</p> $\frac{(41\,440 - 37\,000)}{37\,000} \times 100 = 12\%$ <p>The sales decreased by R148 000 (20%) yet the advertising cost increased by 12%.</p>	<ul style="list-style-type: none"> ▪ Need to relook at the way in which advertising is done as it was ineffective. The actual sales were less than budgeted. ▪ Identify the target market and ensure that advertising is done to that specific target market.
Delivery cost to customers	<p>Spent R8 288 less (by 14%)</p> $\frac{(59\,200 - 50\,912)}{59\,200} \times 100 = 14\%$ <p>Not well controlled. Delivery cost is budgeted at 8% of total sales. The sales decreased by 20%. The business should have spent R47 360 on actual sales, instead they spent R50 912 on deliveries, R3 552 (7,5%) more than they should have.</p>	<ul style="list-style-type: none"> ▪ Install a tracking device to see if the driver is using the vehicle for private affairs.
Repairs to vehicles	<p>Budgeted R20 000 and spent nothing.</p> <p>This is not well managed. With sales down, there should have been less deliveries to the customers so there is no excuse for repairs not being done.</p>	<ul style="list-style-type: none"> ▪ Ensure proper maintenance is done on delivery vehicles. ▪ Outsource deliveries to customers if vehicles go in for repairs so that the business do not end up losing customers. ▪ If the business has more than one vehicle, should plan that repairs are done at least once a year.

4.7 The workers are dissatisfied with the increases they are going to receive in May. They have not received a salary increase the past two years and had to work part time due to covid. They indicated that they would strike if the owner does not pay attention to their grievances as the cost of living increased substantially.

Give a reason (with figures) that the **owner** can use to justify the increase he granted to the workers in May 2022.

- The business will experience cash flow problems from June. The business will have a deficit of R91 000 and a negative bank balance of R23 000.
- The expected sales are decreasing monthly.
- The actual sales were 20% less than budgeted during March.
- The workers will receive a 5% increase which is in line with inflation.

Give a reason (with figures) why the **employees** can feel justified in their grievances.

- The salary of the manager increased by R3 600 (by 12%) which is more than the inflation rate.
- Salaries of the employees which only increased by R3 000 (by 5%). Each employee will receive a R500 increase which is R3 100 less than the manager and less than the current inflation rate.

ACTIVITY 5

WORKINGS:

	May	June	July	August	September
Sales	R476 000	R459 000	R510 000	R549 000	R648 000
Cost of Sales	(R280 000)	(R270 000)	(R300 000)	(R305 000)	(R360 000)
Credit purchases	R252 000	R243 000	R270 000	R274 500	R324 000
May	60%	32%	8% R20 160		
June		60%	32% R77 760	8% R19 440	
July			60% R162 000 DR-R8 100 R153 900	32% R86 400	8% R21 600
August				60% R164 700 DR-R8 235 R156 465	32% R87 840
Sept					60% R194 400 DR-R9 720 R184 680

5.1 Complete the Creditors Payment Schedule from July to September 2022.

	CREDIT PURCHASES	JULY	AUGUST	SEPTEMBER
May	R252 000	R20 160		
June	R243 000	R77 760	R19 440	
July	R270 000	R153 900	R86 400	R21 600
August	R274 500		R156 465	R87 840
September	R324 000			R184 680
PAYMENT TO CREDITORS		R251 820	R262 305	R294 120

5.2 PROJECTED INCOME STATEMENT

	SEPTEMBER
Sales	648 000
Cost of Sales ($648\ 000 \times \frac{100}{180}$)	(360 000)
Gross profit	288 000
Operating income	218 720
Fee income ($220\ 000 \times \frac{95}{100}$)	209 000
Discount received ($360\ 000 \times 90\% = 324\ 000 \times 60\% \times 5\%$)	9 720
Gross operating income	506 720
Operating expenses	(447 730)
Salaries and wages ($76\ 800 \times \frac{100}{64}$)	120 000
Contributions ($120\ 000 \times 1\%$)	1 200
Rent expense ($75\ 000 \div 3$)	25 000
Consumable stores ($77\ 000 \div 220\ 000 \times 100 = 35\%$) ($209\ 000 \times 38\%$)	79 420
Depreciation	14 850
Loss on disposal of asset ($23\ 250 - 13\ 750$)	9 500
Audit fees	60 000
Packing materials	77 760
Directors fee ($153\ 000 \div 3 = 51\ 000 - 21\ 000 = 30\ 000$ each x 2)	60 000
Operating profit	58 990
Interest income	2 100
Net profit before interest expense	61 090
Interest expense	(0)
Net profit before income tax	61 090
Income tax ($61\ 090 \times 30\%$)	(18 327)
Net profit after tax	42 763

5.3 Calculate the fixed deposit amount received during September.

WORKINGS	ANSWER
$x \times \frac{6}{100} \times \frac{1}{12} = (4\,300 - 2\,100)$ $\frac{6x}{1\,200} = 2\,200$ $6x = 2\,200 \times 1\,200$ $\frac{6x}{6} = \frac{2\,640\,000}{6}$ $x = R440\,000$	R440 000
<p>Alternative:</p> $R4\,300 - R2\,100 = R2\,200$ $R2\,200 \times 12 \times \frac{100}{6}$	

Calculate the % cash bonus the directors received during August.

WORKINGS	ANSWER
<p>Cash bonus: $21\,000 \times 3 = 63\,000$</p> <p>Director's fee: $R153\,000 - R63\,000 = R90\,000$</p> $\frac{63\,000}{90\,000} \times 100 = 70\%$ <p>Alternative: One directors' fee</p> $\frac{21\,000}{30\,000} \times 100 = 70\%$	70%

Calculate the number of shares in issue on 30 September 2022.

WORKINGS	ANSWER
$900\,000 \div R4,50 = 200\,000 \text{ shares}$ $2\,500\,000 \times 60\% = 1\,500\,000 \text{ shares at the beginning.}$ $\therefore 1\,500\,000 + 200\,000 = 1\,700\,000 \text{ shares in issue at the end}$	1 700 000 shares

5.4 Comment on the control of consumable stores. Quote figure or calculations.

- The actual fee income was 25% less than budgeted, yet consumables stores were only 19,6% less.
- The consumable stores were budgeted at 35% of fee income, yet the actual figures reflect 37,5%.
- The actual figure should have been R57 750 ($R165\ 000 \times 35\%$), but the actual was R61 900. The business overspent by R4 150 (7,2% more).
- Consumables stores were not well managed.

Comment on the control of packing materials. Quote figures or calculations.

- The actual sales were 22% more than budgeted, yet packing materials was 19,1% more than budgeted.
- The packing materials were budgeted at 8% of sales, yet the actual reflects 7,8%.
- The actual figure should have been R53 600 ($R670\ 000 \times 8\%$), but the actual was R52 300. The business spent R1 300 less (2,4%).
- Packing materials were well managed.

5.5 Identify THREE ways in which the company is expected to raise capital.

- R900 000 from selling of shares.
- R440 000 from a fixed deposit that matured.
- Increased the mark-up % on cost from 70% to 80%. The sales are expected to increase from R549 000 to R648 000 (by 18%).

Based on the Projected Income Statement for September, should the company borrow an additional R480 000? Quote figures to motivate your answer.

- Yes
- The cost of borrowing money will be R7 000 per month. Interest will be R5 000 per month and is expected to decline over the life of the loan. The expected net profit after tax in September is R42 763.
- Expanding the company will generate 18% more in profits after the first year. The cost of borrowing money is 12,5% which indicates that the company is positively geared.