**Accounting and Finance**

**Unit 3**

**Accounting and Finance For WA**

**Chapter 2 – Introduction To Budgeting**

**Test Your Knowledge**

**Question 14**

**List budgets that would possibly contribute to a master budget for:**

**a a manufacturer**

* sales budget;
* production budget;
* manufacturing overhead budget;
* direct materials budget; and
* direct labour budget.

**b a retailer**

* sales budget;
* general overheads budget; and
* direct labour budget.

**c a service business**

* general overheads budget;
* direct labour budget;
* direct materials budget; and
* sales budget.

**Question 15**

**Explain how budgets can have both positive and negative impacts on personnel within an organisation, giving reasons.**

**Positive Impacts**

* **Fosters teamwork** - when each department works together to put together budgets, they work as a team. In a company that has open communication between levels of staff and departments, the exchange of ideas is encouraged, which leads to more-creative strategies.
* **Creates competition** - one of the purposes of a budget is to allocate resources. Those resources are limited, and there's only so much money, staff, and time to go around. Departments compete with each other, as well as individuals competing with each other. For example, if the receptionist gets a raise, there might not be enough funds for the factory workers to get raises as well.
* **Sets direction** - the budget sets the direction for the business by creating goals and objectives and then assigning responsibility to achieve those goals. Employees know what is expected of them for their own particular job and department. The budget preparation encourages employees to become involved and contribute their input.

**Negative Impacts**

* **Creates fear** - unfortunately, the reaction of some employees is to fear for their jobs when budgeting time rolls around. Employee performance reviews usually take place throughout the year based on the annual date of when the employee was hired. The budget is completed at the same time during the year. If staff cuts have to be made, they're often made during the budgeting process.
* **Causes resentment** - the budgeting process adds to the workload of some employees, especially those in the accounting department. This additional work could be resented by those employees. Additionally, if the budget is completed on a top-down basis, where the business owner or chief executive officer decides what the expenditure levels will be on a departmental level, the employees may feel they can't achieve the objectives because they had no say in determining those objectives.

**Question 16**

**Why should all senior personnel participate in formulating and submitting budget estimates?**

Top management of some organisations imposes rules on subordinates without any discussion. If the budget is imposed from above without consultation this is likely to adversely affect the managers’ motivation and attitude to their superiors. It is likely that a manager of a responsibility centre will have a greater degree of knowledge and understanding of the operation of the centre than any other personnel within the organisation, so this knowledge is important in the formulation of budgets.

**Question 17**

**Discuss the interrelationships of the sales budget and the production budget in a manufacturing organisation.**

The sales budget estimates your future sales based on the past sales. This information is used to develop your production budget. The production budget is an estimate of how many units you need to manufacture over a specific period.

**Question 18**

**Explain the function of the following budgets:**

**a sales budget**

a financial plan that estimates a company’s total revenue in a specific time period. It focuses on two things – the number of products sold and the price at which they are sold – to predict how the company will perform.

**b production budget**

details the costs required to keep enough product on hand to meet the inventory requirements of the company. The second factor is sales targets. The production budget forecasts the costs needed to meet sales demand for its products.

**c purchases budget**

a budget set for the purchasing function of an organisation under a system of budgetary control, which plans the volumes and cost of the purchases to be made in a budget period.

**d capital expenditure budget**

a formal plan that states the amounts and timing of fixed asset purchases by an organisation. This budget is part of the annual budget used by a firm, which is intended to organise activities for the upcoming year.

**e cash budget**

is a company's estimation of cash inflows and outflows over a specific period of time, which can be weekly, monthly, quarterly, or annually. A company will use a cash budget to determine whether it has sufficient cash to continue operating over the given time frame.

**f operational expenses budget**

a detailed projection of what a company expects its expenses will be over a period of time. Companies usually formulate such a budget near the end of the year to show expected activity during the following year.

**Test Your Understanding**

**Question 2.1**

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| **January Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (10%)** | **Credit Sales (90%)** | |
| **$400 000** | **$40 000** | **$360 000** | $216 000 (60% Collected in Month of Sale (January) |
| $108 000 (30% Collected in Month Following Sale (February) |
| $36 000 (10% in Second Month Following Sale (March) |

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| **February Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (10%)** | **Credit Sales (90%)** | |
| **$450 000** | **$45 000** | **$405 000** | $243 000 (60% Collected in Month of Sale (February) |
| $121 500 (30% Collected in Month Following Sale (March) |
| $40 500 (10% in Second Month Following Sale (April) |

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| **March Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (10%)** | **Credit Sales (90%)** | |
| **$480 000** | **$48 000** | **$432 000** | $259 200 (60% Collected in Month of Sale (March) |
| $129 600 (30% Collected in Month Following Sale (April) |
| $43 200 (10% in Second Month Following Sale (May) |

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| **April Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (10%)** | **Credit Sales (90%)** | |
| **$590 000** | **$59 000** | **$531 000** | $318 600 (60% Collected in Month of Sale (April) |
| $159 300 (30% Collected in Month Following Sale (May) |
| $53 100 (10% in Second Month Following Sale (June) |

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| **May Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (10%)** | **Credit Sales (90%)** | |
| **$505 000** | **$50 500** | **$454 500** | $272 700 (60% Collected in Month of Sale (May) |
| $136 350 (30% Collected in Month Following Sale (June) |
| $45 450 (10% in Second Month Following Sale (July) |

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| **Cash Sales and Trade Debtors’ Collection Schedule** | | | | | |
| **Actual/Estimated**  **Sales** | **Total Sales**  **$** | **Credit Sales**  **(90% of Total)**  **$** | **March**  **$** | **April**  **$** | **May**  **$** |
| **January** | 400 000 | 360 000 | 36 000 |  |  |
| **February** | 450 000 | 405 000 | 121 500 | 40 500 |  |
| **March** | 480 000 | 432 000 | 259 200 | 129 600 | 43 200 |
| **April** | 590 000 | 531 000 |  | 318 600 | 159 300 |
| **May** | 505 000 | 454 500 |  |  | 272 700 |
| **Collections From Debtors** |  |  | **416 700** | **488 700** | **475 200** |
| **Cash Sales**  **(10% of Total)** |  |  | 48 000 | 59 000 | 50 500 |
| **Budgeted Cash** |  |  | **464 700** | **547 700** | **525 700** |

**Question 2.2**

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| **October Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (30%)** | **Credit Sales (70%)** | |
| **$74 910** | **$22 473** | **$52 437** | $31 462 (60% Collected in First Month Following Sale (November) |
| $15 731 (30% Collected in Second Month Following Sale (December) |
| $5 244 (10% in Third Month Following Sale (January) |

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| **November Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (30%)** | **Credit Sales (70%)** | |
| **$104 720** | **$31 416** | **$73 304** | $43 983 (60% Collected in First Month Following Sale (December) |
| $21 991 (30% Collected in Second Month Following Sale (January) |
| $7 330 (10% in Third Month Following Sale (February) |

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| **December Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (30%)** | **Credit Sales (70%)** | |
| **$115 500** | **$34 650** | **$80 850** | $48 510 (60% Collected in First Month Following Sale (January) |
| $24 255 (30% Collected in Second Month Following Sale (February) |
| $8 085 (10% in Third Month Following Sale (March) |

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| **January Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (30%)** | **Credit Sales (70%)** | |
| **$106 700** | **$32 010** | **$74 690** | $44 814 (60% Collected in First Month Following Sale (February) |
| $22 407 (30% Collected in Second Month Following Sale (March) |
| $7 469 (10% in Third Month Following Sale (April) |

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| **February Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (30%)** | **Credit Sales (70%)** | |
| **$100 100** | **$30 030** | **$70 070** | $42 042 (60% Collected in First Month Following Sale (March) |
| $21 021 (30% Collected in Second Month Following Sale (April) |
| $7 007 (10% in Third Month Following Sale (May) |

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| **March Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (30%)** | **Credit Sales (70%)** | |
| **$90 200** | **$27 060** | **$63 140** | $37 884 (60% Collected in First Month Following Sale (April) |
| $18 942 (30% Collected in Second Month Following Sale (May) |
| $6 314 (10% in Third Month Following Sale (June) |

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| **Accounts Receivable Collection Schedule** | | | | | |
| **Months** | **Total Sales**  **$** | **Credit Sales**  **(70% of Total)**  **$** | **January**  **$** | **February**  **$** | **March**  **$** |
| **October** | 74 910 | 52 437 | 5 244 |  |  |
| **November** | 104 720 | 73 304 | 21 991 | 7 330 |  |
| **December** | 115 500 | 80 850 | 48 510 | 24 255 | 8 085 |
| **January** | 106 700 | 74 690 |  | 44 814 | 22 407 |
| **February** | 100 100 | 70 070 |  |  | 42 042 |
| **Total** |  |  | **75 745** | **76 399** | **72 534** |

**Question 2.3**

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| **July Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | **Credit Sales (40%)** | |
| **$115 500** | **$69 300** | **$46 200** | $18 480 (40% Collected in First Month Following Sale (August)  *$554 (3% Discount for Prompt Payment)* |
| $13 860 (30% Collected in Second Month Following Sale (September) |
| $13 860 (30% in Third Month Following Sale (October) |

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| **August Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | **Credit Sales (40%)** | |
| **$119 900** | **$71 940** | **$47 960** | $19 184 (40% Collected in First Month Following Sale (September)  *$576 (3% Discount for Prompt Payment)* |
| $14 388 (30% Collected in Second Month Following Sale (October) |
| $14 388 (30% in Third Month Following Sale (November) |

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| **September Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | **Credit Sales (40%)** | |
| **$123 200** | **$73 920** | **$49 280** | $19 712 (40% Collected in First Month Following Sale (October)  *$591 (3% Discount for Prompt Payment)* |
| $14 784 (30% Collected in Second Month Following Sale (November) |
| $14 784 (30% in Third Month Following Sale (December) |

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| **October Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | **Credit Sales (40%)** | |
| **$132 000** | **$79 200** | **$52 800** | $21 120 (40% Collected in First Month Following Sale (November)  *$634 (3% Discount for Prompt Payment)* |
| $15 840 (30% Collected in Second Month Following Sale (December) |
| $15 840 (30% in Third Month Following Sale (January) |

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| **November Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | **Credit Sales (40%)** | |
| **$165 000** | **$99 000** | **$66 000** | $26 400 (40% Collected in First Month Following Sale (December)  *$792 (3% Discount for Prompt Payment)* |
| $19 800 (30% Collected in Second Month Following Sale (January) |
| $19 800 (30% in Third Month Following Sale (February) |

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| **December Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | **Credit Sales (40%)** | |
| **$193 600** | **$116 160** | **$77 440** | $30 976 (40% Collected in First Month Following Sale (January)  *$929 (3% Discount for Prompt Payment)* |
| $23 232 (30% Collected in Second Month Following Sale (February) |
| $23 232 (30% in Third Month Following Sale (March) |

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| **Trade Debtors’ Collection Schedule** | | | | | |
| **Actual/Estimated**  **Sales** | **Total Sales**  **$** | **Credit Sales**  **(40% of Total)**  **$** | **October**  **$** | **November**  **$** | **December**  **$** |
| **July** | 115 500 | 46 200 | 13 860 |  |  |
| **August** | 119 900 | 47 960 | 14 388 | 14 388 |  |
| **September** | 123 200 | 49 280 | \*19 121 | 14 784 | 14 784 |
| **October** | 132 000 | 52 800 |  | \*20 486 | 15 840 |
| **November** | 165 000 | 66 000 |  |  | \*25 608 |
| **December** | 193 600 | 77 440 |  |  |  |
| **Collections From Debtors** |  |  | **47 369** | **49 658** | **56 232** |
| **Discount Given** |  |  | **591** | **634** | **792** |
| **\* 3% Discount Has Been Deducted** | | | | | |

**Question 2.4**

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| **October Sales** | |
| **Total/Credit Sales (100%)** | |
| **$170 000** | $68 000 (40% Collected in Month of Sale (October) |
| $68 000 (40% Collected in First Month Following Sale (November) |
| $34 000 (20% in Second Month Following Sale (December) |

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| **November Sales** | |
| **Total/Credit Sales (100%)** | |
| **$200 000** | $80 000 (40% Collected in Month of Sale (November) |
| $80 000 (40% Collected in First Month Following Sale (December) |
| $40 000 (20% in Second Month Following Sale (January) |

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| **December Sales** | |
| **Total/Credit Sales (100%)** | |
| **$320 000** | $128 000 (40% Collected in Month of Sale (December) |
| $128 000 (40% Collected in First Month Following Sale (January) |
| $64 000 (20% in Second Month Following Sale (February) |

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| **January Sales** | |
| **Total/Credit Sales (100%)** | |
| **$230 000** | $92 000 (40% Collected in Month of Sale (January) |
| $92 000 (40% Collected in First Month Following Sale (February) |
| $46 000 (20% in Second Month Following Sale (March) |

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| **February Sales** | |
| **Total/Credit Sales (100%)** | |
| **$190 000** | $76 000 (40% Collected in Month of Sale (February) |
| $76 000 (40% Collected in First Month Following Sale (March) |
| $38 000 (20% in Second Month Following Sale (April) |

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| **March Sales** | |
| **Total/Credit Sales (100%)** | |
| **$160 000** | $64 000 (40% Collected in Month of Sale (March) |
| $64 000 (40% Collected in First Month Following Sale (April) |
| $32 000 (20% in Second Month Following Sale (May) |

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| **Trade Debtors’ Collection Schedule** | | | | |
| **Actual/Estimated**  **Sales** | **Total Sales**  **$** | **January**  **$** | **February**  **$** | **March**  **$** |
| **October** | 170 000 |  |  |  |
| **November** | 200 000 | 40 000 |  |  |
| **December** | 320 000 | 128 000 | 64 000 |  |
| **January** | 230 000 | 92 000 | 92 000 | 46 000 |
| **February** | 190 000 |  | 76 000 | 76 000 |
| **March** | 160 000 |  |  | 64 000 |
| **Collections From Debtors** |  | **260 000** | **232 000** | **186 000** |

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| **December Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$130 000** | $130 000 (100% Collected in First Month Following Sale (January) |

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| **January Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$120 000** | $120 000 (100% Collected in First Month Following Sale (February) |

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| **February Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$90 000** | $90 000 (100% Collected in First Month Following Sale (March) |

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| **March Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$80 000** | $80 000 (100% Collected in First Month Following Sale (April) |

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| **Trade Creditors’ Collection Schedule** | | | | |
| **Actual/Estimated Purchases** | **Total Purchases**  **$** | **January**  **$** | **February**  **$** | **March**  **$** |
| **December** | 130 000 | 130 000 |  |  |
| **January** | 120 000 |  | 120 000 |  |
| **February** | 90 000 |  |  | 90 000 |
| **March** | 80 000 |  |  |  |
| **Payments For Purchases** |  | **130 000** | **120 000** | **90 000** |

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| **Other Budgeted Payments** | **January**  **$** | **February**  **$** | **March**  **$** |
| Wages and Salaries | 15 000 | 15 000 | 15 000 |
| Administration Expenses | 3 000 | 3 500 | 3 750 |
| General Expenses | 4 000 | 4 000 | 4 000 |
| Rent |  | 8 000 |  |
| Loan Repayment | 2 000 | 2 000 | 2 000 |
| Interest | 500 | 500 | 500 |
| Capital Expenditure (Purchase of Equipment) |  |  | 15 000 |
| Income Tax | 35 000 |  |  |

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| **Rawhide Pty Ltd** | | | |
| **Cash Budget for the three months January to March** | | | |
|  | **January**  **$** | **February**  **$** | **March**  **$** |
| Open bank balance 1 January, 2010 | 12 000 | 82 500 | 164 500 |
| **Receipts** |  |  |  |
| Collections from debtors | 260 000 | 232 000 | 186 000 |
| Sale of equipment |  | 3 000 |  |
| **Total cash available** | 272 000 | 317 500 | 350 500 |
| **Payments** |  |  |  |
| Credit Purchases | 130 000 | 120 000 | 90 000 |
| Wages and Salaries | 15 000 | 15 000 | 15 000 |
| Administration Expenses | 3 000 | 3 500 | 3 750 |
| General Expenses | 4 000 | 4 000 | 4 000 |
| Rent |  | 8 000 |  |
| Loan Repayment | 2 000 | 2 000 | 2 000 |
| Interest | 500 | 500 | 500 |
| Capital Expenditure (Purchase of Equipment) |  |  | 15 000 |
| Income Tax | 35 000 |  |  |
| Total budgeted payments | 189 500 | 153 000 | 130 250 |
| **Budgeted cash balance** | 82 500 | 164 500 | 220 250 |

**Question 2.5**

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| **June Sales (Joe)** | |
| **Total/Credit Sales (100%)** | |
| **$80 000** | $80 000 (100% Collected Within One Month of Sale (July) |

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| **July Sales (Joe)** | |
| **Total/Credit Sales (100%)** | |
| **$100 000** | $100 000 (100% Collected Within One Month of Sale (August) |

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| **August Sales (Joe)** | |
| **Total/Credit Sales (100%)** | |
| **$150 000** | $150 000 (100% Collected Within One Month of Sale (September) |

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| **September Sales (Joe)** | |
| **Total/Credit Sales (100%)** | |
| **$170 000** | $170 000 (100% Collected Within One Month of Sale (October) |

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| **Trade Debtors’ Collection Schedule (Joe)** | | | | |
| **Actual/Estimated Sales** | **Credit Sales**  **(100% of Total)**  **$** | **July**  **$** | **August**  **$** | **September**  **$** |
| **June** | 80 000 | 80 000 |  |  |
| **July** | 100 000 |  | 100 000 |  |
| **August** | 150 000 |  |  | 150 000 |
| **Collections From Debtors** |  | **80 000** | **100 000** | **150 000** |

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| **Cash Purchases Collection Schedule (Joe)** | | | | |
| **Actual/Estimated**  **Purchases** | **Total Purchases**  **$** | **July**  **$** | **August**  **$** | **September**  **$** |
| **July** | 70 000 | 70 000 |  |  |
| **August** | 105 000 |  | 105 000 |  |
| **September** | 119 000 |  |  | 119 000 |
| **Payments For Purchases** |  | **70 000** | **105 000** | **119 000** |

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| **Other Budgeted Payments (Joe)** | **July**  **$** | **August**  **$** | **September**  **$** |
| Fixed Expenses | 10 000 | 10 000 | 10 000 |
| Variable Expenses | 1 000 | 1 500 | 1 700 |

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| **Fitness Equipment** | | | |
| **Cash Budget for the three months July to September (Joe)** | | | |
|  | **July**  **$** | **August**  **$** | **September**  **$** |
| Open bank balance 1 July, 2010 | 5 000 | 4 000 | (12 500) |
| **Receipts** |  |  |  |
| Collections from debtors | 80 000 | 100 000 | 150 000 |
| **Total cash available** | 85 000 | 104 000 | 137 500 |
| **Payments** |  |  |  |
| Cash Purchases | 70 000 | 105 000 | 119 000 |
| Fixed Expenses | 10 000 | 10 000 | 10 000 |
| Variable Expenses | 1 000 | 1 500 | 1 700 |
| Total budgeted payments | 81 000 | 116 500 | 130 700 |
| **Budgeted cash balance** | 4 000 | (12 500) | 6 800 |

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| **June Sales (Debbie)** | |
| **Total/Credit Sales (100%)** | |
| **$80 000** | $80 000 (100% Collected Within One Month of Sale (July) |

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| **July Sales (Debbie)** | |
| **Total/Credit Sales (100%)** | |
| **$90 000** | $90 000 (100% Collected Within One Month of Sale (August) |

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| **August Sales (Debbie)** | |
| **Total/Credit Sales (100%)** | |
| **$200 000** | $200 000 (100% Collected Within One Month of Sale (September) |

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| **September Sales (Debbie)** | |
| **Total/Credit Sales (100%)** | |
| **$230 000** | $230 000 (100% Collected Within One Month of Sale (October) |

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| **Trade Debtors’ Collection Schedule (Debbie)** | | | | |
| **Actual/Estimated Sales** | **Credit Sales**  **(100% of Total)**  **$** | **July**  **$** | **August**  **$** | **September**  **$** |
| **June** | 80 000 | 80 000 |  |  |
| **July** | 90 000 |  | 90 000 |  |
| **August** | 200 000 |  |  | 200 000 |
| **Collections From Debtors** |  | **80 000** | **90 000** | **200 000** |

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| **Cash Purchases Collection Schedule (Debbie)** | | | | |
| **Actual/Estimated**  **Purchases** | **Total Purchases**  **$** | **July**  **$** | **August**  **$** | **September**  **$** |
| **July** | 63 000 | 63 000 |  |  |
| **August** | 140 000 |  | 140 000 |  |
| **September** | 161 000 |  |  | 161 000 |
| **Payments For Purchases** |  | **63 000** | **140 000** | **161 000** |

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| **Other Budgeted Payments (Debbie)** | **July**  **$** | **August**  **$** | **September**  **$** |
| Fixed Expenses | 10 000 | 10 000 | 10 000 |
| Variable Expenses | 900 | 2 000 | 2 300 |

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| **Fitness Equipment** | | | |
| **Cash Budget for the three months July to September (Debbie)** | | | |
|  | **July**  **$** | **August**  **$** | **September**  **$** |
| Open bank balance 1 July, 2010 | 5 000 | 11 100 | (50 900) |
| **Receipts** |  |  |  |
| Collections from debtors | 80 000 | 90 000 | 200 000 |
| **Total cash available** | 85 000 | 101 100 | 149 100 |
| **Payments** |  |  |  |
| Cash Purchases | 63 000 | 140 000 | 161 000 |
| Fixed Expenses | 10 000 | 10 000 | 10 000 |
| Variable Expenses | 900 | 2 000 | 2 300 |
| Total budgeted payments | 73 900 | 152 000 | 173 300 |
| **Budgeted cash balance** | 11 100 | (50 900) | (24 200) |

**Question 2.6**

|  |  |
| --- | --- |
| **May Sales** | |
| **Total/Credit Sales (100%)** | |
| **$132 000** | $92 400 (70% Collected in First Month Following Sale (June) |
| $39 600 (30% Collected in Second Month Following Sale (July) |

|  |  |
| --- | --- |
| **June Sales** | |
| **Credit Sales (100%)** | |
| **$142 000** | $99 400 (70% Collected in First Month Following Sale (July) |
| $42 600 (30% Collected in Second Month Following Sale (August) |

|  |  |
| --- | --- |
| **July Sales** | |
| **Credit Sales (100%)** | |
| **$150 000** | $105 000 (70% Collected in First Month Following Sale (August) |
| $45 000 (30% Collected in Second Month Following Sale (September) |

|  |  |
| --- | --- |
| **August Sales** | |
| **Credit Sales (100%)** | |
| **$148 000** | $103 600 (70% Collected in First Month Following Sale (September) |
| $44 400 (30% Collected in Second Month Following Sale (October) |

|  |  |
| --- | --- |
| **September Sales** | |
| **Credit Sales (100%)** | |
| **$143 000** | $100 100 (70% Collected in First Month Following Sale (October) |
| $42 900 (30% Collected in Second Month Following Sale (November) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Accounts Receivable Collection Schedule** | | | | |
| **Actual/Estimated**  **Sales** | **Credit Sales**  **(100% of Total)**  **$** | **July**  **$** | **August**  **$** | **September**  **$** |
| **May** | 132 000 | 39 600 |  |  |
| **June** | 142 000 | 99 400 | 42 600 |  |
| **July** | 150 000 |  | 105 000 | 45 000 |
| **August** | 148 000 |  |  | 103 600 |
| **Collections From Debtors** |  | **139 000** | **147 600** | **148 600** |

|  |  |
| --- | --- |
| **June Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$54 560** | $52 923 (100% Paid In The Month After Purchase (July)  *$1 637 (3% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **July Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$50 900** | $49 373 (100% Paid In The Month After Purchase (August)  *$1 527 (3% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **August Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$54 000** | $52 380 (100% Paid In The Month After Purchase (September)  *$1 620 (3% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **September Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$59 000** | $57 230 (100% Paid In The Month After Purchase (September)  *$1 770 (3% Discount for Prompt Payment)* |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Trade Creditors’ Collection Schedule** | | | | |
| **Actual/Estimated**  **Purchases** | **Credit Purchases**  **(100% of Total)**  **$** | **July**  **$** | **August**  **$** | **September**  **$** |
| **June** | 54 560 | \*52 923 |  |  |
| **July** | 50 900 |  | \*49 373 |  |
| **August** | 54 000 |  |  | \*52 380 |
| **Payments For Purchases** |  | **52 923** | **49 373** | **52 380** |
| **Discount Received** |  | **1 637** | **1 527** | **1 620** |
| **\* 3% Discount Has Been Deducted** | | | | |

|  |  |  |  |
| --- | --- | --- | --- |
| **Other Budgeted Payments** | **July**  **$** | **August**  **$** | **September**  **$** |
| Salaries and Wages | 36 000 | 38 000 | 42 000 |
| Electricity | 6 000 |  |  |
| Advertising | 3 800 | 3 500 | 3 900 |
| Office Expenses | 6 160 | 6 930 | 7 040 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Basilio Pty Ltd** | | | |
| **Cash Budget for the three months July to September** | | | |
|  | **July**  **$** | **August**  **$** | **September**  **$** |
| Open Bank Balance 1 July, 2010 | 63 000 | 85 117 | 121 914 |
| **Receipts** |  |  |  |
| Collections from Debtors | 139 000 | 147 600 | 148 600 |
| Long-Term Bank Loan |  | 45 000 |  |
| **Total cash available** | 202 000 | 277 717 | 270 514 |
| **Payments** |  |  |  |
| Credit Purchases | 52 923 | 49 373 | 52 380 |
| Salaries and Wages | 36 000 | 38 000 | 42 000 |
| Electricity | 6 000 |  |  |
| Advertising | 3 800 | 3 500 | 3 900 |
| Office Expenses | 6 160 | 6 930 | 7 040 |
| Loan Repayment | 10 500 |  |  |
| Interest Expense | 1 500 |  |  |
| Capital Expenditure (Purchase of Equipment) |  | 58 000 |  |
| Dividends |  |  | 50 000 |
| Total Budgeted Payments | 116 883 | 155 803 | 155 320 |
| **Budgeted Cash Balance** | 85 117 | 121 914 | 115 194 |

**Exercise 2.8**

|  |  |
| --- | --- |
| **Cost of Sales** | |
| **40% of Sales** | $450 000 x 0.4 = **$180 000** |

|  |  |
| --- | --- |
| **Advertising** | |
| **3% of Sales** | $450 000 x 0.03 = **$13 500** |

|  |  |
| --- | --- |
| **Rent** | |
| **$2 500 Per Month** | $2 500 x 12 = **$30 000** |

|  |  |
| --- | --- |
| **Electricity** | |
| **$450 Per Month** | $450 x 12 = **$5 400** |

|  |  |
| --- | --- |
| **Salaries** | |
| **Total For The Year** | $130 000 + $2 400 = **$132 400** |

|  |  |
| --- | --- |
| **Depreciation** | |
| **$640 Per Month** | $640 x 12 = **$7 680** |

|  |  |
| --- | --- |
| **Sales Commission** | |
| **3% of Sales** | $450 000 x 0.03 = **$13 500** |

|  |  |
| --- | --- |
| **Insurance** | |
| **$4 500 For 12 Months** | $4 500/12 = **$375 Per Month** |
| **1 January 2011 – 31 May 2011 = $1 900**  **June 2011 = $375** | $1 900 + $375 = **$2 275** |

|  |  |
| --- | --- |
| **Income Taxation** | |
| **30% of Profit** | $64 045 x 0.30 = **$19 214** |

|  |  |
| --- | --- |
| **Bicton Pty Ltd** | |
| **Budgeted Income Statement for the year ended 30 June 2011** | |
|  | **$** |
| Sales | 450 000 |
| Less Cost of Sales | 180 000 |
| **Gross Profit** | **270 000** |
| **Expenses** |  |
| Advertising | 13 500 |
| Rent | 30 000 |
| Electricity | 5 400 |
| Salaries | 132 400 |
| Depreciation | 7 680 |
| Sales Commissions | 13 500 |
| Insurance | 2 275 |
| Bad Debts | 1 200 |
| **Total Expenses** | **205 955** |
| **Budgeted Profit (Before Taxation)** | **64 045** |
| Income Taxation | 19 214 |
| **Budgeted Profit (After Taxation)** | **44 831** |

**Exercise 2.12**

**Requirement A**

|  |  |  |  |
| --- | --- | --- | --- |
| **July Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (40%)** | **Credit Sales (60%)** | |
| **$89 100** | **$35 640** | **$53 460** | $37 422 (70% Collected One Month After Sale (August) |
| $10 692 (20% Collected in Second Month After Sale (September) |
| $5 346 (10% in Third Month After Sale (October) |

|  |  |  |  |
| --- | --- | --- | --- |
| **August Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (40%)** | **Credit Sales (60%)** | |
| **$89 980** | **$35 992** | **$53 988** | $37 791 (70% Collected One Month After Sale (September) |
| $10 798 (20% Collected in Second Month After Sale (October) |
| $5 399 (10% in Third Month After Sale (November) |

|  |  |  |  |
| --- | --- | --- | --- |
| **September Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (40%)** | **Credit Sales (60%)** | |
| **$99 000** | **$39 600** | **$59 400** | $41 580 (70% Collected One Month After Sale (October) |
| $11 880 (20% Collected in Second Month After Sale (November) |
| $5 940 (10% in Third Month After Sale (December) |

|  |  |  |  |
| --- | --- | --- | --- |
| **October Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (40%)** | **Credit Sales (60%)** | |
| **$88 000** | **$35 200** | **$52 800** | $36 960 (70% Collected One Month After Sale (November) |
| $10 560 (20% Collected in Second Month After Sale (December) |
| $5 280 (10% in Third Month After Sale (January) |

|  |  |  |  |
| --- | --- | --- | --- |
| **November Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (40%)** | **Credit Sales (60%)** | |
| **$77 000** | **$30 800** | **$46 200** | $32 340 (70% Collected One Month After Sale (December) |
| $9 240 (20% Collected in Second Month After Sale (January) |
| $4 620 (10% in Third Month After Sale (February) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Trade Debtors’ Collection Schedule** | | | | |
| **Actual/Estimated**  **Sales** | **Total Sales**  **$** | **Credit Sales**  **(60% of Total)**  **$** | **October**  **$** | **November**  **$** |
| **July** | 89 100 | 53 460 | 5 346 |  |
| **August** | 89 980 | 53 988 | 10 798 | 5 399 |
| **September** | 99 000 | 59 400 | 41 580 | 11 880 |
| **October** | 88 000 | 52 800 |  | 36 960 |
| **Collections From Debtors** |  |  | **57 724** | **54 239** |
| **Cash Sales (40% of Total)** |  |  | 35 200 | 30 800 |
| **Budgeted Cash** |  |  | **92 924** | **85 039** |

**Requirement B**

|  |  |
| --- | --- |
| **July Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$34 980** | $34 980 (100% Paid In The Month After Purchase (August)  *$697 (2% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **August Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$37 950** | $37 950 (100% Paid In The Month After Purchase (September)  *$759 (2% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **September Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$44 000** | $44 000 (100% Paid In The Month After Purchase (October)  *$880 (2% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **October Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$33 000** | $33 000 (100% Paid In The Month After Purchase (November)  *$660 (2% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **November Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$55 000** | $55 000 (100% Paid In The Month After Purchase (December)  *$1 100 (2% Discount for Prompt Payment)* |

|  |  |  |  |
| --- | --- | --- | --- |
| **Trade Creditors’ Collection Schedule** | | | |
| **Actual/Estimated**  **Purchases** | **Total Purchases**  **$** | **October**  **$** | **November**  **$** |
| **September** | 44 000 | \*43 120 |  |
| **October** | 33 000 |  | \*32 340 |
| **Payments For Purchases** |  | **43 120** | **32 340** |
| **Discount Received** |  | **880** | **660** |
| **\* 2% Discount Has Been Deducted** | | | |

|  |  |  |
| --- | --- | --- |
| **Other Budgeted Payments** | **October**  **$** | **November**  **$** |
| Advertising | 8 200 | 7 600 |
| Office Administration Expenses | 15 400 | 14 500 |
| Electricity | 5 610 | 4 202 |
| Equipment Maintenance | 2 100 | 1 730 |
| Cleaning | 990 | 990 |
| Annual Copier Service | 360 |  |
| Entertainment and Hospitality | 600 |  |
| Travel |  | 725 |

|  |  |
| --- | --- |
| **Salaries and Wages** | |
| **October** | $12 000 + $400 = **$12 400** |

|  |  |  |
| --- | --- | --- |
| **Cheung Pty Ltd** | | |
| **Cash Budget for the two months October to November 2010** | | |
|  | **October**  **$** | **November**  **$** |
| Open Bank Balance 1 October, 2010 | 16 900 | 4 944 |
| **Receipts** |  |  |
| Collection From Debtors | 57 724 | 54 239 |
| Cash Sales | 35 200 | 30 800 |
| Sale of Equipment | 4 400 |  |
| Loan From Bank |  | 20 000 |
| **Total Cash Available** | 114 224 | 109 983 |
| **Payments** |  |  |
| Credit Purchases | 43 120 | 32 340 |
| Advertising | 8 200 | 7 600 |
| Office Administration Expenses | 15 400 | 14 500 |
| Electricity | 5 610 | 4 202 |
| Equipment Maintenance | 2 100 | 1 730 |
| Cleaning | 990 | 990 |
| Annual Copier Service | 360 |  |
| Entertainment and Hospitality | 600 |  |
| Travel |  | 725 |
| Salaries and Wages | 12 400 | 12 500 |
| Loan Repayment | 3 000 |  |
| Interest Repayment | 500 |  |
| Annual Dividend | 17 000 |  |
| Capital Expenditure (Equipment) |  | 25 080 |
| Total Budgeted Payments | 109 280 | 99 667 |
| **Budgeted Cash Balance** | 4 944 | 10 316 |

**Requirement C**

|  |  |
| --- | --- |
| **Cost of Sales** | |
| **55% of Sales** | |
| **October** | $88 000 x 0.55 = **$48 400** |
| **November** | $77 000 x 0.55 = **$42 350** |

|  |  |
| --- | --- |
| **Insurance** | |
| **$3 300 For 6 Months** | $3 300/6 = **$550 Per Month** |

|  |  |
| --- | --- |
| **Salaries and Wages** | |
| **November** | $12 500 + $500 = **$13 000** |

|  |  |
| --- | --- |
| **Sale of Equipment** | |
| **Carrying Amount** | $4 400 + $700 = **$5 100** |

|  |  |
| --- | --- |
| **Cheung Pty Ltd** | |
| **Budgeted Income Statement for October - November 2010** | |
| **Sales** | 165 000 |
| *Less* **Cost of Sales** | 90 750 |
| **Gross Profit** | 74 250 |
| *Add* **Other Operating Income** |  |
| Discount Revenue | 1 540 |
| **Total Income** | 75 790 |
| **Operating Expenses** |  |
| Insurance | 1 100 |
| Advertising | 15 800 |
| Office Administration Expenses | 29 900 |
| Electricity | 9 812 |
| Equipment Maintenance | 3 830 |
| Cleaning | 1 980 |
| Annual Copier Service | 360 |
| Entertainment and Hospitality | 600 |
| Travel | 725 |
| Salaries and Wages | 25 000 |
| Interest Expense | 500 |
| Depreciation | 1 600 |
| Carrying Amount (Sale of Equipment) | 5 100 |
| **Total Expenses** | 96 307 |
| **Budgeted Profit (Loss)** | (20 517) |

**Requirement D**

The loan for the new equipment will incur a $6 000 interest expense per year for the life of the loan. The management will need to assess this situation, including the return on the investment in the capital as well as the time taken to retrieve the capital. Additionally, they will need to assess the capacity to earn funds from the investment, the liquidity, profitability and gearing of the organisation, and the earning capacity of the equipment.

**Exercise 2.15**

**Requirement A**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **February Sales** | | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | | **Credit Sales (40%)** | |
| **$350 000** | **$210 000** | $210 000 x 0.3 = **$63 000** | **$140 000** | **$98 000** (70% Collected One Month After Sale (March) |
| $210 000 x 0.7 = $147 000 |
| $147 000 x 0.995 = **$146 265** | **$42 000** (30% Collected in Second Month After Sale (April) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **March Sales** | | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | | **Credit Sales (40%)** | |
| **$450 000** | **$270 000** | $270 000 x 0.3 = **$81 000** | **$180 000** | **$126 000** (70% Collected One Month After Sale (April) |
| $270 000 x 0.7 = $189 000 |
| $189 000 x 0.995 = **$188 055** | **$54 000** (30% Collected in Second Month After Sale (May) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **April Sales** | | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | | **Credit Sales (40%)** | |
| **$320 000** | **$192 000** | $192 000 x 0.3 = **$57 600** | **$128 000** | **$89 600** (70% Collected One Month After Sale (May) |
| $192 000 x 0.7 = $134 400 |
| $134 400 x 0.995 = **$133 728** | **$38 400** (30% Collected in Second Month After Sale (June) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **May Sales** | | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | | **Credit Sales (40%)** | |
| **$310 000** | **$186 000** | $186 000 x 0.3 = **$55 800** | **$124 000** | $86 800 (70% Collected One Month After Sale (June) |
| $186 000 x 0.7 = $130 200 |
| $130 200 x 0.995 = **$129 549** | $37 200 (30% Collected in Second Month After Sale (July) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **June Sales** | | | | |
| **Total Sales (100%)** | **Cash Sales (60%)** | | **Credit Sales (40%)** | |
| **$320 250** | **$192 150** | $192 150 x 0.3 = **$57 645** | **$128 100** | $89 670 (70% Collected One Month After Sale (July) |
| $192 150 x 0.7 = $134 505 |
| $134 505 x 0.995 = **$133 832** |
| $38 430 (30% Collected in Second Month After Sale (August) |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cash Sales and Trade Debtors’ Collection Schedule** | | | | | |
| **Actual/Estimated**  **Sales** | **Total Sales**  **$** | **Credit Sales**  **(40% of Total)**  **$** | **April**  **$** | **May**  **$** | **June**  **$** |
| **February** | 350 000 | 140 000 | 42 000 |  |  |
| **March** | 450 000 | 180 000 | 126 000 | 54 000 |  |
| **April** | 320 000 | 128 000 |  | 89 600 | 38 400 |
| **May** | 310 000 | 124 000 |  |  | 86 800 |
| **June** | 320 250 | 128 100 |  |  |  |
| **Collections From Debtors** |  |  | **168 000** | **143 600** | **125 200** |
| **Cash Sales (60% of Total)** |  |  | 191 328 | 185 349 | 191 477 |
| **Budgeted Cash** |  |  | **359 328** | **328 949** | **316 677** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Trade Creditors’ Collection Schedule** | | | | |
| **Actual/Estimated Purchases** | **Credit Purchases**  **(100% of Total)**  **$** | **April**  **$** | **May**  **$** | **June**  **$** |
| **March** | 137 280 | 137 280 |  |  |
| **April** | 132 990 |  | 132 990 |  |
| **May** | 134 200 |  |  | 134 200 |
| **Payments For Purchases** |  | **137 280** | **132 990** | **134 200** |
| **Discount Received** |  | **0** | **0** | **0** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Other Budgeted Payments** | **April**  **$** | **May**  **$** | **June**  **$** |
| Capital Expenditure (Plant and Equipment) | 8 500 |  |  |
| Loan Repayments |  | 270 | 270 |
| Interest Payments |  | 90 | 90 |
| Rent |  | 3 800 |  |
| Advertising | 1 600 | 1 600 | 1 600 |
| General Running Costs | 5 200 | 5 200 | 5 200 |
| Administration Costs | 4 200 | 4 200 | 4 200 |
| Salary | 3 900 | 3 950 | 3 500 |
| Insurance |  | 2 700 |  |
| Dividends |  | 14 000 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Tiggy Winkle Pty Ltd** | | | |
| **Cash Budget for the three months April to June 2011** | | | |
|  | **April**  **$** | **May**  **$** | **June**  **$** |
|  |  |  |  |
| Open Bank Balance 1 April, 2011 | 6 100 | 205 420 | 366 220 |
| **Receipts** |  |  |  |
| Collection From Debtors | 168 000 | 143 600 | 125 200 |
| Cash Sales | 191 328 | 186 000 | 192 150 |
| **Total Cash Available** | 365 428 | 535 020 | 683 570 |
| **Payments** |  |  |  |
| Credit Purchases | 137 280 | 132 990 | 134 200 |
| Capital Expenditure (Plant and Equipment) | 8 500 |  |  |
| Loan Repayments |  | 270 | 270 |
| Interest Payments |  | 90 | 90 |
| Rent |  | 3 800 |  |
| Advertising | 1 600 | 1 600 | 1 600 |
| General Running Costs | 5 200 | 5 200 | 5 200 |
| Administration Costs | 4 200 | 4 200 | 4 200 |
| Salary | 3 900 | 3 950 | 3 500 |
| Insurance |  | 2 700 |  |
| Dividends |  | 14 000 |  |
| **Total Budgeted Payments** | 160 680 | 168 800 | 149 060 |
| **Budgeted Cash Balance** | 205 420 | 366 220 | 534 510 |

**Requirement B**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Tiggy Winkle Pty Ltd** | | | | |
| **Budgeted Income Statement for April - June 2011** | | | | |
|  | **April**  **$** | **May**  **$** | **June**  **$** | **Notes** |
| **Sales** | 320 000 | 310 000 | 320 250 |  |
| *Less* **Cost Of Sales (Purchases)** | 132 990 | 134 200 | 136 400 |  |
| **Gross Profit** | 187 010 | 175 800 | 183 850 |  |
| **Operating Expenses** |  |  |  |  |
| EFTPOS Fees | 672 | 651 | 673 | $192 000 x 0.70 x 0.005 = $672  $186 000 x 0.70 x 0.005 = $651  $192 150 x 0.70 x 0.005 = $673 |
| Depreciation On Plant and Equipment | 3 000 | 3 000 | 3 000 | $36 000 / 12 = $3 000 |
| Interest |  | 90 | 90 |  |
| Rent | 1 800 | 1 800 | 1 900 |  |
| Advertising | 1 600 | 1 600 | 1 600 |  |
| General Running Costs | 5 200 | 5 200 | 5 200 |  |
| Administration Costs | 4 200 | 4 200 | 4 200 |  |
| Salary | 3 900 | 3 950 | 4 000 | $3 500 + $500 = $4 000 (June) |
| Insurance | 200 | 200 | 225 | $2 400 / 12 = $200  $2 700 / 12 = $225 |
| **Total Expenses** | 20 572 | 20 691 | 20 888 |  |
| **Budgeted Profit (Before Taxation)** | 166 438 | 155 109 | 162 962 |  |
| Income Taxation | 49 931 | 46 533 | 48 887 | $166 438 x 0.30 = $49 931  $155 109 x 0.30 = $46533  $162 962 x 0.30 = $48 887 |
| **Budgeted Profit (After Taxation)** | 116 507 | 108 576 | 114 075 |  |

|  |  |  |
| --- | --- | --- |
| **Tiggy Winkle Pty Ltd** | | |
| **Budgeted Income Statement for April - June 2011** | | |
|  | **June**  **$** | **Notes** |
| **Sales** | 950 250 |  |
| *Less* **Cost Of Sales (Purchases)** | 403 590 |  |
| **Gross Profit** | 546 660 |  |
| **Operating Expenses** |  |  |
| EFTPOS Fees | 1 996 | $192 000 x 0.70 x 0.005 = $672  $186 000 x 0.70 x 0.005 = $651  $192 150 x 0.70 x 0.005 = $673  $672 + $651 + $673 = **$1 996** |
| Depreciation On Plant and Equipment | 9 000 | $36 000 / 12 = $3 000 x 3 = **$9 000** |
| Interest | 180 | $90 x2 = **$180** |
| Rent | 5 500 | $1 800 + $1 800 + $1 900 = **$5 500** |
| Advertising | 4 800 | $1 600 x 3 = **$4 800** |
| General Running Costs | 15 600 | $5 200 x 3 = **$15 600** |
| Administration Costs | 12 600 | $4 200 x 3 = **$12 600** |
| Salary | 11 800 | $3 900 + $3 950 ($3 500 + $500 = $4 000 (June) = **$11 800** |
| Insurance | 625 | $2 400 / 12 = $200  $2 700 / 12 = $225  $200 + $200 + $225 = **$625** |
| **Total Expenses** | **$62 101** |  |
| **Budgeted Profit (Before Taxation)** | **$484 559** |  |
| Income Taxation | 145 368 | $484 559 x 0.3 = **$145 368** |
| **Budgeted Profit (After Taxation)** | **$339 191** |  |

**Exercise 2.16**

**Requirement A**

|  |  |  |  |
| --- | --- | --- | --- |
| **November Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (70%)** | **Credit Sales (30%)** | |
| **$60 500** | **$42 350** | **$18 150** | $14 520 (80% Collected in First Month After Sale (December)  *$291 (2% Discount For Prompt Payment)* |
| $3 630 (20% Collected in Second Month After Sale (January) |

|  |  |  |  |
| --- | --- | --- | --- |
| **December Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (70%)** | **Credit Sales (30%)** | |
| **$80 700** | **$64 560** | **$24 210** | $19 368 (80% Collected in First Month After Sale (January)  *$387 (2% Discount For Prompt Payment)* |
| $4 842 (20% Collected in Second Month After Sale (February) |

|  |  |  |  |
| --- | --- | --- | --- |
| **January Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (70%)** | **Credit Sales (30%)** | |
| **$70 600** | **$49 420** | **$21 180** | $16 944 (80% Collected in First Month After Sale (February)  *$339 (2% Discount For Prompt Payment)* |
| $4 236 (20% Collected in Second Month After Sale (March) |

|  |  |  |  |
| --- | --- | --- | --- |
| **February Sales** | | | |
| **Total Sales (100%)** | **Cash Sales (70%)** | **Credit Sales (30%)** | |
| **$61 800** | **$43 260** | **$18 540** | $14 832 (80% Collected in First Month After Sale (March)  *$297 (2% Discount For Prompt Payment)* |
| $3 708 (20% Collected in Second Month After Sale (April) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cash Sales and Trade Debtors’ Collection Schedule** | | | | |
| **Actual/Estimated**  **Sales** | **Total Sales**  **$** | **Credit Sales**  **(30% of Total)**  **$** | **January**  **$** | **February**  **$** |
| **November** | 60 500 | 18 150 | 3 630 |  |
| **December** | 80 700 | 24 210 | 18 981 | 4 842 |
| **January** | 70 600 | 21 180 |  | 16 605 |
| **February** | 61 800 | 18 540 |  |  |
| **Collections From Debtors** |  |  | **22 611** | **21 447** |
| **Cash Sales (70% of Total)** |  |  | 49 420 | 43 260 |
| **Budgeted Cash** |  |  | **72 031** | **64 707** |
| **Discount Allowed** |  |  | 387 | 339 |

|  |  |
| --- | --- |
| **December Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$26 700** | $26 700 (100% Paid In The Month After Purchase (January)  *$534 (2% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **January Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$27 000** | $27 000 (100% Paid In The Month After Purchase (February)  *$540 (2% Discount for Prompt Payment)* |

|  |  |
| --- | --- |
| **February Purchases** | |
| **Total/Credit Purchases (100%)** | |
| **$25 900** | $25 900 (100% Paid In The Month After Purchase (March)  *$518 (2% Discount for Prompt Payment)* |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Trade Creditors’ Collection Schedule** | | | | |
| **Actual/Estimated**  **Purchases** |  | **Credit Purchases**  **(100% of Total)**  **$** | **January**  **$** | **February**  **$** |
| **December** |  | 26 700 | 26 166 |  |
| **January** |  | 27 000 |  | 26 460 |
| **Payments For Purchases** |  |  | **26 166** | **26 460** |
| **Discount Received** |  |  | **534** | **540** |

|  |  |  |
| --- | --- | --- |
| **Other Budgeted Payments** | **January**  **$** | **February**  **$** |
| Salaries | 8 000 | 7 800 |
| Administration | 7 860 | 8 120 |
| Rent |  | 7 600 |
| Income Tax | 34 000 |  |
| Interim Dividend |  | 15 000 |
| Fittings |  | 20 000 |
| Loan Repayment | 2 000 |  |
| Interest Payment | 800 |  |

|  |  |  |
| --- | --- | --- |
| **Gosnells Pty Ltd** | | |
| **Cash Budget for the two months January to February 2012** | | |
|  | **January**  **$** | **February**  **$** |
|  |  |  |
| Open Bank Balance 1 January, 2012 | (9 800) | 23 405 |
| **Receipts** |  |  |
| Collection From Debtors | 22 611 | 21 447 |
| Cash Sales | 49 420 | 43 260 |
| Bank Loan |  | 15 000 |
| Sale of Assets |  | 1 900 |
| Share Issue | 40 000 |  |
| **Total Cash Available** | 102 231 | 105 012 |
| **Payments** |  |  |
| Credit Purchases | 26 166 | 26 460 |
| Salaries | 8 000 | 7 800 |
| Administration | 7 860 | 8 120 |
| Rent |  | 7 600 |
| Income Tax | 34 000 |  |
| Interim Dividend |  | 15 000 |
| Fittings |  | 20 000 |
| Loan Repayment | 2 000 |  |
| Interest Payment | 800 |  |
| **Total Budgeted Payments** | 78 826 | 84 980 |
| **Budgeted Cash Balance** | 23 405 | 20 032 |

**Requirement B**

**Advice to Directors:**

* Prepare a profit budget for the coming period and compare with past profit outcomes.
* Gather data on industry conditions and competitiveness of the business.
* Examine gearing measures (capacity to repay).
* Avoid using working capital for the purchase of new equipment.
* Review payment of interim dividend in February.
* Consider rate of return on new capital expenditure.

**Requirement C (Actual Results)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Gosnells Pty Ltd** | | | |
| **Cash Performance Report for the month of February 2012** | | | |
|  | **February**  **$** | **Actual**  **$** | **Variance**  **$ U/F** |
|  |  |  |  |
| Open Bank Balance 1 January, 2012 | 23 405 | 23 405 | **-** |
| **Receipts** |  |  |  |
| Collection From Debtors | 21 447 | 16 900 | **4 547 U** |
| Cash Sales | 43 260 | 52 000 | **8 740 F** |
| Bank Loan | 15 000 | 15 000 | **-** |
| Sale of Assets | 1 900 | 690 | **1 210 U** |
| Share Issue |  | 40 000 | **40 000 F** |
| **Total Cash Available** | 105 012 | 147 995 | **42 983 F** |
| **Payments** |  |  |  |
| Credit Purchases | 26 460 | 24 100 | **2 360 F** |
| Salaries | 7 800 | 7 100 | **700 F** |
| Administration | 8 120 | 7 910 | **210 F** |
| Rent | 7 600 | 7 600 | **-** |
| Income Tax |  | 34 000 | **34 000 U** |
| Interim Dividend | 15 000 | 15 000 | **-** |
| Fittings | 20 000 | 21 000 | **1 000 U** |
| Loan Repayment |  | 2 000 | **2 000 U** |
| Interest Payment |  | 800 | **800 U** |
| **Total Budgeted Payments** | 84 980 | 119 510 | **34 530 U** |
| **Budgeted Cash Balance** | 20 032 | 28 485 | **8 453 F** |

**Exercise 2.18**

**Requirement A**

|  |  |  |  |
| --- | --- | --- | --- |
| **Badawi Suppliers** | | | |
| **Profit Performance Report for December 2011** | | | |
|  | **December**  **$** | **Actual**  **$** | **Variance**  **$ U/F** |
|  |  |  |  |
| Sales | 1 470 000 | 1 234 500 | **235 500 U** |
| Cost of Sales | 617 000 | 508 000 | **109 000 F** |
| **Gross Profit** | 853 000 | 726 500 | **126 500 U** |
| *Add* Discount Revenue | 14 620 | 11 500 | **3 120 U** |
| Total Income | 867 620 | 738 000 | **129 620 U** |
| *Less* **Expenses** |  |  |  |
| Selling and Distribution | 403 600 | 380 600 | **23 000 F** |
| Office and Administration | 167 500 | 149 000 | **18 500 F** |
| Depreciation | 46 000 | 45 000 | **1 000 F** |
| Interest | 31 200 | 30 000 | **1 200 F** |
| Discount Expense | 12 820 | 8 400 | **4 420 F** |
| Bad Debts | 34 500 | 44 500 | **10 000 U** |
| Rent | 96 000 | 96 000 | **-** |
| Total Expenses | 791 620 | 753 500 | **38 120 F** |
| **Budgeted Profit (Loss)** | 76 000 | (15 500) | **91 500 U** |

**Requirement B**

The business attempted to arrest the loss outcome in the following ways:

* Reducing the cost of sales; and
* Reduced the total expenses of the business including in the areas of selling and distribution, office and administration, depreciation, interest and discount expense.

**Requirement C**

To improve the budget for the next three months the business should focus on:

* Increasing their sales;
* Implement internal control procedures to reduce the amount of bad debts; and
* Continue to decrease the operating expenses.