ACCOUNTING

GRADE 11

TERM 3

BUDGETING

BUDGETING

BUDGETS

- A budget is **a formal written plan** which a business draws up to indicate its future financial planning.

- It is based on the the **objectives/goals** of a business and is intended to show how policies are to be pursued in order to achieve the objectives/goals
- It plans for expected **revenues and expenses**
- It allocates **resources**
- It controls **income and expenditure.**

THE BUDGETING PERIOD

- The budget period will depend on the nature and the size of the business.
- The following is considered:
  - **Long term budgeting**: prepared by top management for period over a number of years. The planning will include capital, financing and staffing needs.
  - **Short-term budgeting**: prepared for a period of one year or few months or one month. This gives a more detailed lay out of the budgeting process. Will include expected sales, cost of sales, other income and expenses, the cash float, acquisition of assets, financing of current assets and repayment of non-current and current liabilities.
  - **Medium-trem budgeting**: forms a link between the long term and short term budgeting process. Budgeting is a continuous process and changes will take place depending on the economic situation of markets and the profits of the business.

ADVANTAGES OF BUDGETING

- Therefore the advantage of budgeting is
  - Enable businesses to **plan for the future**
  - To **monitor and detect** early warning signs of potential problems and
  - Provide **corrective measures**

PROJECTED INCOME STATEMENT

- Indicates the expected **income and expenditure** of the Income Statement over a period of time.
  -

Items that are not included in the cash budget :	**Expected cash payments (outflow)**
• Cash sales • Receipts from debtors	• Cash purchases of trading stock & fixed assets • Payments to creditors

CASH BUDGETS

- indicates the expected **receipts and payments** over a period of time.

Items that are not included in the cash budget :((NON-CASH ITEMS)	
• Bad debts • Discount received • Discount allowed • Depreciation	• Loss on sale of an asset • Profit on sale of an asset • Drawings of trading stock

ACTIVITY 1

1.1 What is the purpose of preparing a cash budget?

1.2 Mention TWO expenses other than depreciation that will not be included under 'Payments' in the cash budget.

1.3 State ONE difference between a Cash Budget and a Projected Income Statement.

1.4 Explain why a business would compare the actual amounts received or paid against the budgeted figures.

ACTIVITY 2

The following transactions were taken from the records of AV Stores for the period ended 30 June 2018.

REQUIRED:

Complete the table in the answer book by filling in the amounts only in the relevant column(s).

Example: The telephone account for June 2018, R2 130 was paid by cheque.

No.	Amount in the Cash Budget for June 2018		Amount in the Projected Income Statement for June 2018	
	RECEIPT	PAYMENT	INCOME	EXPENSE
Example		R2 130		R2 130

Transactions:

1 The expected cash sales for June 2018 were estimated to be R35 200. The profit mark-up is 60% on cost.

2 Total depreciation on fixed assets for the financial year ended 30 June 2018 amounted to R1 420.

3 Cash receipts from debtors for June 2018 are expected to be R62 200. Discounts of R2 150 will be allowed for early payments received.

4 An instalment of R8 460 on the loan is expected to be paid on 25 June 2018. R460 of this amount is the interest on loan.

ACTIVITY 3

Make use of the information provided below to draw up the Debtors collection period for the three month period 01January 2021 to 31 March 2021.

INFORMATION

Month TOTAL SALES	Actual	Budgeted
November	60 000	
December	80 000	
January		50 000
February		52 000
March		60 000

Debtors usually settle their accounts as follows:

- 60 % of debtors pay one month after the date of sale
- 20 % of debtors pay two months after the date of sale
- 15 % of debtors pay three months after the date of sale
- 5 % irrecoverable debts (bad debts)

Note: Cash sales is 40% of total sales

ACTIVITY 4

REQUIRED

Use the information provided below to prepare the Debtors collection schedule of Zizzy Stores for October, November, and December 2021.

INFORMATION

1. Actual sales and expenses			
Month	**July**	**August**	**September**
Cash Sales	40 000	41 000	43 000
Credit sales	38 000	38 000	41 000

2. Budgeted sales and expenses			
Month	**October**	**November**	**December**
Cash sales	43 000	45 000	52 000
Credit sales	40 000	42 000	50 000

1. The enterprise encourages the debtors to pay early by allowing a 5% discount for accounts settled within 30 days.
2. Debtors are expected to pay as follows:
   - 50% in the same month as transactions (receive 5 % discount)
   - 30% in the following month
   - 15% after two months
   - 5% is written off as irrecoverable

ACTIVITY 5

You are provided with information relating to Zethu Builders Hardware for the two months ended 30 September 2018.

REQUIRED:

- Complete the Debtors' Collection Schedule for the two months ending 30 September 2018.
- Complete the Creditors Payment Schedule for the two months ending 30 September 2018.

INFORMATION:

A. Sales

Monthly total sales are:

	Actual	**Budgeted**
May	R350 000	
June	R400 000	
July	R500 000	
August		?
September		R800 000

- Credit sales amounts to 75% of the total sales.

Debtors pay according to the following trend:

- 50% pay in the month following the month of sale.
- 30% pay in the second month following the month of sale.
- 18% pay in the third month following the month of sale.
- 2% is written-off as irrecoverable.

B. Purchases

Monthly total purchases are as follows:

	Actual	Budgeted
July	R400 000	
August		R550 000
September		R600 000

- 40% of all purchases are cash.
- Creditors are paid in full after 30 days to take advantage of a 5% discount.

C. Cash Budget for the two months ending 30 September 2018

RECEIPTS	**AUGUST**	**SEPTEMBER**
Cash sales	150 000	**?**
Collection from debtors	**?**	**?**
Fixed deposit: ND Bank	**?**	300 000
Interest on fixed deposit	4 000	4 000
Sundry cash income	30 000	35 000
PAYMENTS		
Cash purchase of trading stock		240 000
Payments to creditors	228 000	
Salaries and wages	45 000	48 600
Equipment	50 000	50 000
Manager's salary	41 000	47 150
Interest on loan	0	

ACTIVITY 6

PHAKISO TRADERS

You are provided with the information from Phakiso Traders. You are required to complete the following for January and February 2021:

- Debtors Collection schedule
- Cash budget for January and February

INFORMATION

A. EXTRACT FROM THE LIST OF BALANCES ON 01 DECEMBER 2020	
Fixed Deposit (8 % p.a.)	24 000
Loan: Future Bank (14 % p.a.)	36 000

B. ACTUAL AND BUDGETED FIGURES				
	Actual		**Budgeted**	
	November	**December**	**January**	**February**
Credit sales	45 000	48 000	60 000	54 000
Cash sales	50 000	55 000	40 000	36 000
Credit purchases	22 000	23 000	30 000	25 000

ADDITIONAL INFORMATION

1. It is expected that the amounts owed by debtors will be collected as follows:
   - 30 % in the same month in which the transaction took place
   - 50% in the month after the sales take place
   - 15% in the second month after the sales took place
   - 5% is to be written off in the third month after the sales take place
2. The Fixed deposit matures on the 31 January 2021. Interest on Fixed Deposit is received at the end of each month.
3. The business will sell the old equipment on 31 January 2021 for R3 000 cash. New equipment will be purchased on credit for R34 000 in February .The supplier will require a deposit of R4 000 and the balance will be paid over six months commencing in March 2021.
4. Depreciation will increase from R6 700 to R7 000 from January 2021.
5. Credit purchases are paid in full in the month following the purchases transaction month. A discount of 5% is received for this payment.
6. The loan from Mayibuye Bank was made on 01 November .Half of the loan will be repaid on 31 January 2021 .Interest on loan must be paid monthly.
7. The business employs three shop assistants at a salary of R4 000 each per month. On 31 January one of the assistants will leave the business. The other two assistants will receive the increase R1 000 each per month with effect from 01 February.
8. Part of building is let at R2 500 per month .The rent received will increase by 15% on 01 February.
9. Phakiso Traders has an unfavourable bank balance of R6 200.

ACTIVITY 7

The information provided is extracted from the books of Baloyi Traders.

REQUIRED

- Complete the Debtors' collection schedule of Baloyi Traders for April 2021 and May 2021.
- Prepare the Cash Budget of Baloyi Traders for April 2021 and May 2021.

INFORMATON

1. Cash in the Bank on 31 March 2021, R 18 400
2. Summary of transactions:

	ACTUAL			**BUDGETED**	
	January	**February**	**March**	**April**	**May**
Cash sales	R 27 500	R 24 500	R 21 500	R 27 500	R 36 000
Credit sales	R 28 400	R 29 500	R 32 500	R 28 500	R 34 500
Cash purchases of stock	R 12 000	R 15 800	R 16 100	R 12 400	R 14 700
Credit purchases of stock	R 16 850	R 16 250	R 15 450	R 14 800	R 17 900
Operating expenses	R 6 600	R 7 000	R 7 600	??	??

3. Credit sales are to be collected as follows:
   - 20% in the month of sale (5% settlement discount is allowed for prompt settlement)
   - 60% after 30 days (first month after sale)
   - 18% after 60 days (second month after sale)
   - 2% is to be written off after 90 days (third month after sales)
4. Creditors are paid one month after purchases.
5. Operating expenses are paid in cash one month after the expense occurred. It is expected that the operating expenses would increase by 5% per month over the budget period.
6. The following withdrawals are made monthly by the owner:
   - Cash to pay for owners' personal telephone R 300
   - Trading stock R 700
7. Fixed deposit of R 45 000 with an interest of R 4 000 is due to mature on the 15 of May 2021.
8. Depreciation is calculated at R 3 500 per month.
9. A new vehicle costing R 53 000 will be purchased and paid in April 2021.

ACTIVITY 8

RCN Transport owned by Sonny Mkize is a small business that offers delivery service. Their financial year ends on 30 September each year.

REQUIRED:

- Complete the Debtors Collection schedule for October 2018 and November 2018.

- Complete the Cash Budget for October and November 2018.

INFORMATION:

A **A partially completed Cash Budget for October and November 2018.**

	October 2018	**November 2018**
CASH RECEIPTS		
Collection from debtors		
Fee income for services rendered	62 000	
Rent income	8 200	
Commission income	4 650	
Fixed deposit		10 000
Interest on fixed deposit	375	
TOTAL RECEIPTS		
CASH PAYMENTS		
Fuel and oil	32 600	
Maintenance of vehicles	24 500	
Salaries		
Drawings		
Telephone	2 300	
Sundry expenses	3 120	
Interest on loan		
Purchase of additional vehicle		
TOTAL PAYMENTS		
SUPLUS/SHORTFALL		
Opening Balance	22 104	
Balance at the end of the month		

B. Services rendered to customers on credit is as follows:

September 2018	142 500
October 2018	176 400
November 2018	174 800

C. Debtors normally pay according to the following pattern:

40%	pay their accounts during the transaction month to take advantage of the 2,5% discount.
55%	pay in the month following the transaction month.
	The balance is usually written off as bad debts after the second month.

D. The rent income will be increased by 9%, and fuel and oil is expected to go up by 15 cents to the Rand, with effect from 1 November 2018.

E. A fixed deposit is expected to mature on 1 November 2018. Interest on investment is earned at 9% p.a.

F. Interest on the loan at 11% p.a. is payable monthly. The loan balance on 1 October 2018 was R300 000.

G. Salaries are paid to the five drivers employed by the firm. All drivers are expected to get a 6% inflationary increase during November 2018.

H. The business plans to buy an additional vehicle during November 2018. The total cost of the vehicle is R256 000 inclusive of finance charges. A deposit of 10% is payable. The balance will be settled over 60 months. The deposit and the first monthly instalment will be paid during November 2018.

I. Commission income is a fixed percentage of the cash fee income for services rendered

J. The owner draws R500 cash and takes R150 worth of consumable stores per month for his personal use.

K. Sundry expenses is expected to increase by 2,5% each month.

L. All other items on the budget are expected to remain the same over the budget period.