 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY**

**ACTIVITIES AND WORKSHEETS**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **SUBJECT** | ACCOUNTING | **GRADE** | 11 | **DATE** |  |
| **TOPIC** | Cash budgets | **Term**  | 3 |  |
| **TIME ALLOCATION** | 2 Weeks  |

|  |
| --- |
| **TIPS TO KEEP HEALTHY** |
|  |  |
| 1. | **WASH YOUR HANDS** thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%. |
|  |  |
| 2. | **PRACTICE SOCIAL DISTANCING** – keep a distance of 2 ms away from other people. |
|  |  |
| 3. | **PRACTISE GOOD RESPIRATORY HYGIENE**: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use. |
|  |  |
| 4. | **WEAR A MASK AND TRY NOT TO TOUCH YOUR FACE.** The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. |
|  |  |
| 5. | **STAY AT HOME.**  |

 |
| **INSTRUCTIONS** | See requirements per activity |
| **RESOURCES** | **TEXTBOOK(S) & NOTES** |

**BUDGETING AND INTERNAL CONTROL**

The topic on Budgeting and Projected Income Statements falls under **Discipline 2** (Manufacturing, Forecasting, Internal Auditing and controls) and will be tested in Paper 2.

Discipline 1 deals with Financial Reporting and covers topics such as Financial Statements.

The Grade 11 curriculum commences with Budgeting in Term 3 and is allocated three weeks on the Annual Teaching Plan.

**Extract from the Revised CAPS: Budgeting is a fundamental topic to be covered as per 2020 Gr 11 Reviewed ATP**

|  |  |  |
| --- | --- | --- |
| **Discipline 2:****weighting 50%****Manufacturing, Forecasting and Internal Auditing & Control**  | **PAPER 2** | 1. Reconciliations
 |
| 1. Value-added tax
 |
| 1. Inventory valuation
 |
| 1. Manufacturing & Cost accounting
 |
| 1. **Budgeting and Projected Income Statements**
 |
| 1. Financial indicators for internal control purposes
 |
| 1. Internal control & internal auditing (cash, fixed assets, inventories, debtors, creditors, income and expenses including salaries & wages)
 |
| 1. Ethics
 |

**The topic covers:** Cash Budgets

 Projected Income Statement

 Integrate internal control, and ethics with all the topics

**AIM:**

The aim of this programme is

* to provide participants with support and development so that they can improve their delivery of this topic in the teaching and learning environment;
* The approach is activity and methodology based, and should lead to an improvement in the results of Grade 11 learners.

|  |
| --- |
|  **Provide suggestions for improvement in relation to Teaching and Learning** |
| The differences between a cash budget and a projected income statement must be emphasized through the use of appropriate practical examples. Terms and concepts such as income vs receipts and expenses vs payments must be clarified again with relevant examples of balance sheet accounts, nominal accounts, and cash and non-cash items. A variety of exercises and activities extracted from past-year examination papers and study guides must be used for classwork and short summative tests that can be peer marked, must be included. Class discussions and practical exercises of preparing budgets will reinforce the relevance of this topic to real-life activities and school/class projects. The SBA case study can be effectively used to address the problem-solving element of budgeting.  |

**OUTCOMES:**

At the end of this programme, participants should be able to:

* explain basic budget concepts
* prepare and present, a cash budget
* analyse and Interpret projected income statements and cash budgets
* Integrate internal control process.

***Further:***

Use the knowledge and skills gained from the programme to:

* Effectively impart the relevant content to learners
* Provide practical examples from real-life situations
* Design assessment tasks (formal and informal) to assess the progress.

**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.
* The following aspects are taken into consideration; sales policy and mark-up % , whether ther will be an increase or decrease in income and expenses as compared to the previous year’s actual figures
* To complete the projected income statement the following are considered;
	+ the previous years actual income statement figures are used. The amounts are divided into 12 for each months consideration.
	+ Increase in expenses due to inflation, global economic happenings, natural disasters etc.
	+ The different festivities during the year where sales are increased
	+ Competitors

**CASH BUDGETS**

* indicates the expected receipts and payments over a period of time.
* The Cash Budget enables the sole trader to determine whether there will be sufficient Inflow of cash in the business to be able to make the expected payments and
* to make the necessary arrangements for overdraft facilities if the Cash Budget indicates a possible cash shortage in a specific month

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

**BASELINE ACTIVITY 2**

|  |
| --- |
| The following transactions were taken from the records of AV Stores for theperiod 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 beR35 200. The profit mark-up is 60% on cost. |
|  | 2 | Total depreciation on fixed assets for the financial year ended30 June 2018 amounted to R1 420. |
|  | 3 | Cash receipts from debtors for June 2018 are expected to beR62 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 on25 June 2018. R460 of this amount is the interest on loan. |

**Points for Discussion:**

* Cash budget
* Projected income statement
* Receipts and income
* Payments and expenses
* Surplus/Shortfall and Profit/loss
* Actual figures and budgeted figures
* Any other concepts and terminology raised by participants.

**EXERCISE 1**

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

**REQUIRED:**

|  |  |  |
| --- | --- | --- |
| 1.1 | Complete the Debtors' Collection Schedule for the two months ending 30 September 2018. | (9) |
| 1.2 | Calculate the amount of bad debts that will be written-off in September 2018. | (3) |
| 1.3 | Calculate the missing amounts indicated **(a)** to **(d)** in the incomplete Cash budget provided. | (14) |
| 1.4 | Calculate the percentage increase in the amount budgeted for salaries and wages for September 2018. The workers are threatening to go on strike for a higher wage increase. Do you think they are justified in their grievance? Explain your answer. | (5) |
| 1.5 | A local town councillor has offered to recommend Zethu Builders Hardware to supply building material to the value of R1 000 000 in the extension of local municipality offices. However, he will only do this, if Zwakele pays him 10% of the total value in cash. Give TWO reasons why Zwakele should not accept this offer. | (4) |
| **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 | **(a)** |
| 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  | **(b)** | 240 000 |
| Payments to creditors  | 228 000 | **(c)** |
| Salaries and wages  | 45 000 | 48 600 |
| Equipment  | 50 000 | 50 000 |
| Manager’s salary  | 41 000 | 47 150 |
| Interest on loan | 0 | **(d)** |

 |  |
| **D.** | A loan of R800 000 was negotiated with BOB Investors at 18% p.a. interest on 31 December 2017. Interest is not capitalised. The interest is payable every three months on the 31 March, 30 June, 30 September and 31 December, commencing on 31 March 2018. |  |

**EXERCISE 2**

|  |
| --- |
| RCN Transport owned by Sonny Mkize is a small business that offers delivery service. Their financial year ends on 30 September each year. |
| **REQUIRED:** |
| 2.1 | Complete the Debtors Collection schedule for October 2018 andNovember 2018. | (10) |
| 2.2 | On 31 October 2018, the following figures were extracted from therecords of the business. Explain what you would mention to Sonnyabout each of the items listed. Give ONE point of advice in each CASE. | (6) |
|  |  |  |

|  |  |
| --- | --- |
|  | **OCTOBER 2018** |
| **BUDGETED (R)** | **ACTUAL (R)** |
| Maintenance of vehicles | 24 500 | 21 380 |
| Collection from debtors | 147 171 | 115 620 |
| Telephone | 2 300 | 4 860 |

|  |  |  |
| --- | --- | --- |
| 2.3 | Complete the Cash Budget for October and November 2018. | (25) |
| **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 | 131 126 |  |
| **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 secondmonth. |

 |  |
| 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 November2018. 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. |  |

**EXERCISE 3**

Hayley Westra owns Boxes Etc., a business selling packing material. Her business is experiencing cash flow problems and she asked you to assist in correcting this. Budgeted and actual figures were provided in the cash budget.

**REQUIRED**

|  |  |  |
| --- | --- | --- |
| 3.1 | Calculate the values marked (A) ‒ (F). | (8) |
| 3.2 | Refer to the figures for “Cash received from debtors”. Are the debtors adhering to the credit terms of the business? Provide figures to support your answer. | (3) |
| 3.3 | No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months? | (2) |
| 3.4 | The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer. | (5) |
| 3.5 | The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved. Excluding these two items and the renting of equipment (as in 3.4), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.  | (6) |
| 3.6 | The owner, Hayley, bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person’s point by explaining ONE reason for each. | (2) |

**INFORMATION**

**Boxes Etc ‒ Cash budget for July and August 2018**

|  |  |  |
| --- | --- | --- |
|  | **July** | **August** |
| **Cash receipts** | **Budget** | **Actual** | **Budget** | **Actual** |
| Cash sales (40% of total sales) | 720 000 | 840 000 | 360 000 | 378 000 |
| Receipts from debtors | 864 000 | 624 000 | **(A)** | 920 000 |
| Rent income | **(F)** | **(F)** | 49 680 | 49 680 |
| Fixed deposit | 360 000 | 360 000 | ‒ | ‒ |
| Sundry income | ? | ? | ? | ? |
| Loan: FNB | 300 000 | 300 000 | ‒ | ‒ |
| Sale of vehicle | 189 000 | 120 000 | ‒ | ‒ |
| **TOTAL RECEIPTS** | ? | ? | ? | ? |
| **Cash payments** |  |  |  |  |
| Payments to creditors | 960 000 | 960 000 | **(B)** | 1 200 000 |
| Wages and salaries | 144 000 | 180 000 | 144 000 | 108 000 |
| Fixed deposit (ABSA) | ‒  | ‒ | **(C)** | **(C)** |
| Drawings | 150 000 | 210 000 | 150 000 | 168 000 |
| Repayment of loan | ‒ | ‒ | 30 000 | 30 000 |
| Rent of equipment | 507 000 | 459 000 | 511 080 | ? |
| Interest on loan |  |  | ? | ? |
| **TOTAL PAYMENTS** | 1 761 000 | 1 809 000 | ? | ? |
| Surplus (Deficit) | 720 200 | 483 200 | (675 400) | (757 070) |
| Bank opening balance | (432 000) | (432 000) | **(D)** | 51 200 |
| Bank closing balance | 288 200 | 51 200 | **(E)** | (705 870) |

**Additional information:**

* Debtors must pay their outstanding debts after 30 days and will receive a 5% discount for prompt payment.
* All stock is bought on credit and a fixed basis of stock is maintained. Creditors’ accounts are settled after 30 days.
* A gross profit margin of 60% is used.
* Half of the fixed deposit received in July, was reinvested in August 2018. Interest is receivable every 6 months (at the end of June and December)
* The loan was obtained to help solve the cash flow problem. It is repayable in monthly instalments.
* The monthly rent increased on 1 August 2018 with 15%.
* In the past, when the business wanted to sell a business vehicle, the driver of that vehicle usually had first option to purchase it at carrying value. No deposit was required and the balance would have been deducted in monthly instalments from his salary.

**EXERCISE 4**

The Abridged Projected Income Statement of Thando Traders for the three months ended December 2018 is produced below.

**REQUIRED:**

|  |  |
| --- | --- |
| 4.1 | Complete the Debtors Collection Schedule to show the total amount expected to be received from debtors during November 2018. |
| 4.2 | Calculate: |
|  | 4.2.1 | Expected sales in December 2018 |
|  | 4.2.2 | The gross profit percentage on turnover for October 2018 |
|  | 4.2.3 | The percentage increase in rent income |
|  | 4.2.4 | The percentage commission expected to be received each month |
|  | 4.2.5 | The insurance amount for each month |
|  | 4.2.6 | The amount of the loan that will be repaid on 1 December 2018 |
| 4.3 | **Refer to Information G** (budgeted and actual figures for November 2018): Comment on the variance for each item given. In each case, provide ONE pointof advice that the business can use. |

**INFORMATION:**

|  |  |
| --- | --- |
| **A** | **Abridged Projected Income Statement of Thando Traders for the three months ended 31 December 2018 Abridged Projected Income Statement of Thando Traders for the three months ended 31 December 2018** |
|  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **OCTOBER 2018** | **NOVEMBER 2018** | **DECEMBER 2018** |  |
| Sales | 98 000 | 102 900 | **?** |
| Cost of sales | 78 400 | 82 320 | **?** |
| **Gross profit** | 19 600 | 20 580 | **?** |
| **Other operating income** | 12 220 | 12 465 | **?** |
| Rent income | 6 500 | 6 500 | 7 280 |
| Discount received | 820 | 820 | 820 |
| Commission income | 4 900 | 5 145 | **?** |
| **Gross operating income** | 31 820 | 33 045 | 38 970 |
| **Operating expenses** |  |  |  |
| Salaries and wages | 8 400 | 8 400 | **?** |
| Insurance | **?** | **?** | **?** |
| Depreciation | **?** | **?** | **?** |
| Advertising | 5 200 | 5 200 | 5 200 |
| Bad debts | 1 800 | 1 960 | **?** |
| Telephone | 3 300 | 3 300 | 3 300 |
| Sundry expenses | 1 250 | 1 260 | 1 270 |
| **Operating profit** |  |  |  |
| Interest on loan | 2 500 | 2 500 | 2 000 |
| **Net profit (loss)** |  |  |  |

 |
|  |  |
| B. | All sales are on credit. Sales in December is expected to increase by 20%. |
| C. | Debtors are granted 30 days credit. Receipts is normally as follows: |
|  | 45% of debtors pay their accounts in the month of sales53% of debtors pay their accounts in the month following the month of sales2% of debtors is normally written off as bad debts |
| D. | Commission income is expected to be a fixed percentage of sales. |
| E. | The insurance premium is paid every quarter. The last payment of R2 400 was made on 30 September 2018. |
| F. | Interest on loan at 10% p.a. is paid at the end of each month. |
| G. | The accountant provided the actual and budgeted figures for the following items for November 2018: |
|  |

|  |  |
| --- | --- |
|  | **NOVEMBER 2018** |
| **BUDGETED** | **ACTUAL** |
| Sales | 102 900 | 82 320 |
| Advertising | 5 200 | 1 500 |
| Telephone | 3 300 | 5 450 |

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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

**BUDGETING**

**BASELINE 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.** |
|  |  |
|  |  |

**BASELINE ACTIVITY 2**

|  |  |  |
| --- | --- | --- |
| **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*** |
| 1 |  |  |  |  |
| 2 |  |  |  |  |
| 3 |  |  |  |  |
| 4 |  |  |  |  |
|  |  |  |  |  |

**EXERCISE 1**

|  |  |  |
| --- | --- | --- |
| **1.1** | **DEBTORS' COLLECTION SCHEDULE** |  |
|  |  |  |
|  | **MONTHS** | **CREDIT SALES** | **AUGUST** | **SEPTEMBER** |  |
|  | **May**  | **262 500** |  | **47 250** |  |  |  |

|  |
| --- |
|  |
| **9** |

 |
|  | **June**  | **300 000** |  | **90 000** |  | **54 000** |  |
|  | **July**  | **375 000** |  |  |  |  |  |
|  | **August**  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |
| **1.2** | **Calculate the amount of bad debts that will be written-off in September 2018.**  |

|  |
| --- |
|  |
| **3** |

 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **1.3** |  | **WORKINGS** | **AMOUNT** |  |
|  | **(a)** | **Cash sales for September** |  |  |
|  | **(b)** | **Cash purchases of trading stock in August** |  |  |
|  | **(c)** | **Payments to creditors for September** |  |

|  |
| --- |
|  |
| **14** |

 |
|  | **(d)** | **Interest on loan for September**   |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **1.4** | **Calculate the percentage increase in the amount budgeted for salaries and wages for September 2018.** **Do you think they are justified in their grievance? Explain**.  |

|  |
| --- |
|  |
| **5** |

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|  |  |  |
| **1.5** | **A local town councillor has offered to recommend Zethu Builders Hardware to supply building material to the value of R1 000 000 in the extension of local municipality offices. However, he will only do this, if Zwakele pays him 10% of the total value in cash.** **Give TWO reasons why Zwakele should not accept this offer.**  |  |
|  |  |

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| --- |
|  |
| **4** |

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**EXERCISE 2**

|  |  |
| --- | --- |
| **2.1** | **DEBTORS COLLECTION SCHEDULE** |
|  |  |
|  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **MONTHS** | **CREDIT SALES** |  | **OCTOBER** | **NOVEMBER** |
| **September** | **142 500** |  |
| **October** | **176 400** |  |
| **November** | **174 800** |  |
|  |  |  |
|  |  |  |  |

 |

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|  |
| **10** |

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| **2.2** | **Explain what you would mention to Sonny about each of the items listed. Give ONE point of advice in each CASE.** |
|  |  |
|  |

|  |  |  |
| --- | --- | --- |
|  | **COMMENT** | **ADVICE** |
| **Maintenance of vehicles** |  |  |
| **Collection from debtors** |  |  |
| **Telephone** |  |  |

 |

|  |  |
| --- | --- |
| **2.3** | **RCN TRANSPORT** |
|  | **CASH BUDGET FOR OCTOBER 2015 TO NOVEMBER 2018** |
|  |  |
|  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **October****2018** | **November****2018** |  |
| **CASH RECEIPTS** |  |  |
| Collection from debtors |  |  |
| Fee income for services rendered | **62 000** |  **65 400** |
| 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 |  **25 500** |  |
| Drawings |   |  |
| Telephone | **2 300** |  |
| Sundry expenses | **3 120** |  |
| Interest on loan |   |  |
| Purchase of additional vehicle |  **131 126** |  |
| **TOTAL PAYMENTS** |
| **SUPLUS/SHORTFALL** |
| Opening Balance | **22 104** |  |
| Balance at the end of the month |

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| **EXERCISE 3** |

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| **3.1** | **Calculate the values marked (A) ‒ (F).**

|  |  |
| --- | --- |
|  | **Calculations** |
| **A** |  |
| **B** |  |
| **C** |  |
| **D** |  |
| **E** |  |
| **F** |  |

 | **8** |

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| **3.2** | **Refer to the figures for “Cash received from debtors”. Are the debtors adhering to the credit terms of the business? Provide figures to support your answer.** **.** **Explanation:**  | **3** |
| **3.3** | **No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months?**

|  |  |
| --- | --- |
|  | **Reason**  |
| **July**  |  |
| **August** |  |

 | **2** |
| **3.4** | **The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer.** | **5** |
| **3.5** | **The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved.** **Excluding these two items and the renting of equipment (as in 3.4), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.**

|  |  |  |
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| **Item** | **Figure** | **Advice** |
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 | **6** |
| **3.6** | **The owner bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person’s point by explaining ONE reason for each.**

|  |  |
| --- | --- |
|  | **Concern** |
| **Driver**  |  |
| **Finance officer** |  |

 | **2** |

**EXERCISE 4**

|  |  |
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| **4.1** | **Complete the Debtors Collection Schedule to show the total amount expected to be received from debtors during November 2018.** |
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|  |  |  |  |
| --- | --- | --- | --- |
| **MONTH** | **CREDIT SALES** |  | **NOVEMBER 2018** |
| October |  |  |  |
| November |  |  |  |
| TOTAL |  |  |  |
|  |

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|  |  |
| **4.2.1** | **Expected sales in December 2018** |
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|  |  |
|  |  |
| **4.2.2** | **The gross profit percentage on turnover for October 2018.** |
|  |  |
|  |  |
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| **4.2.3** | **The percentage increase in rent income.** |
|  |  |
|  |   |
|  |  |
| **4.2.4** | **The percentage commission expected to be received each month.** |
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|  |   |
|  |  |
| **4.2.5** | **The insurance amount for each month.** |
|  |  |
|  |   |
|  |  |
| **4.2.6** | **The amount of the loan that will be repaid on 1 December 2018.** |
|  |  |
|  |   |
| **4.3** | **Comment on the variance for each item given. In each case, provide ONE point of advice that the business can use.** |
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|  | **COMMENT**  | **ADVICE** |
| **Sales** |  |  |
| **Advertising** |  |  |
| **Telephone** |  |  |

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**BUDGETING**

**BASELINE ACTIVITY 1**

|  |  |
| --- | --- |
| **1.1** | **What is the purpose of preparing a cash budget?** |
|  |  |
|  | A cash budget is a financial plan outlining projected receipts and payments for a specified period. This forecast assists in preventing cash flow problems and a bank overdraft. |
|  |  |
| **1.2** | **Mention TWO expenses other than depreciation that will not be included under ‘Payments’ in the cash budget.** |
|  | * Discount allowed
* Loss on sale of asset
* Increase in provision for bad debts
 |
|  |  |
| **1.3** | **State ONE difference between a Cash Budget and a Projected Income****Statement.** |
|  |  |
|  | * A cash budget focuses on cash receipts and cash payments. It shows the surplus/shortfall of cash and the cash balance over the budget period.
* A Projected Income Statement focuses on income and expenses over the budget period and projects the profit or loss. Includes only nominal accounts, cash and non-cash items and takes into account adjustments.
 |
|  |  |
| **1.4** | **Explain why a business would compare the actual amounts received or paid against the budgeted figures.** |
|  |  |
|  | * Helps to control payments (cash management).
* Management can take corrective measures in addressing variances.
* Mismanagement and fraud can be exposed.
 |

**BASELINE ACTIVITY 2**

|  |  |  |
| --- | --- | --- |
| **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*** |
| 1 | 35 200 |  | 35 200 | 22 000 |
| 2 |  |  |  | 1 420 |
| 3 | 62 200 |  |  | 2 150 |
| 4 |  | 8 460 |  | 460 |
|  |  |  |  |  |

**EXERCISE 1**

|  |  |  |
| --- | --- | --- |
| **1.1** | **DEBTORS' COLLECTION SCHEDULE** |  |
|  |  |  |
|  | **MONTHS** | **CREDIT SALES** | **AUGUST** | **SEPTEMBER** |  |
|  | **May**  | **262 500** |  | **47 250** |  |  |  |

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| **9** |

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|  | **June**  | **300 000** |  | **90 000** |  | **54 000** |  |
|  | **July**  | **375 000** |  | 187 500🗸🗸 |  | 112 500🗸🗸 |  |
|  | **August**  | 450 000🗸🗸 | 50% of credit sales | 225 000☑☑ |  |
|  |  |  |  | 391 500 ☑one part correct |
|  |  |  |
| **1.2** | **Calculate the amount of bad debts that will be written-off in September 2018.** 262 500🗸x 2% 🗸= 5 250 ☑ Operation one part correct |

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| **1.3** |  | **WORKINGS** | **AMOUNT** |  |
|  | **(a)** | **Cash sales for September**800 000 x 25% | R200 000🗸🗸 |  |
|   | **(b)** | **Cash purchases of trading stock in August**550 000 x 40% | R220 000🗸🗸 |  |
|  | **(c)** | **Payments to creditors for September**550 000 🗸 x 60% 🗸x 95%🗸  330 000 two marks – 16 500 one mark | R313 500🗸☑One part correct |

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| **14** |

 |
|  | **(d)** | **Interest on loan for September** 800 000 x 18% x 3/12  🗸 🗸 🗸   | R36 000🗸☑One part correct |

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| **1.4** | **Calculate the percentage increase in the amount budgeted for salaries and wages for September 2018.** 3 600 x 100 = 8% 🗸🗸% sign not essential here 45 000 1**Do you think they are justified in their grievance? Explain**.No🗸, the 8% is above the inflation rate🗸🗸**OR**Yes🗸, the manager got 15% while they only got 8%🗸🗸  |

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| **5** |

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| **1.5** | **A local town councillor has offered to recommend Zethu Builders Hardware to supply building material to the value of R1 000 000 in the extension of local municipality offices. However, he will only do this, if Zwakele pays him 10% of the total value in cash.** **Give TWO reasons why Zwakele should not accept this offer.**  |  |
|  | Any two suggestions 🗸🗸 🗸🗸* This is actually a bribe which is unethical.
* If this information is made public, it will have a negative effect on the business in the future.
* Zwakele must tender formally at the municipality to secure the contract through the normal processes.
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| **4** |

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**EXERCISE 2**

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| **2.1** | **DEBTORS COLLECTION SCHEDULE** |
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|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **MONTHS** | **CREDIT SALES** |  | **OCTOBER**78 375 68 796 147 171 | **NOVEMBER**97 020 68 172 165 192  |
| **September** | **142 500** |  |
| **October** | **176 400** |  |
| **November** | **174 800** |  |
|  |  |  |
|  |  |  | Operation – one part correct |

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| **10** |

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| **2.2** | **Explain what you would mention to Sonny about each of the items listed. Give ONE point of advice in each CASE.** |
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|  | **COMMENT**One valid point each for    | **ADVICE**One relevant advice    |
| **Maintenance of vehicles** | Underspent or over budgeted Not well controlled. Not making adequate use of money allocated. | Important to maintain vehicle regularly to improve performance and productivity. Do not compromise on this. |
| **Collection from debtors** | Poor collection policy /over-budgetedEstimates may be unrealistic. | Revise collection policy or be more vigilant in implementing the policy. Offer incentives for early payments or penalties for late payments.Send reminders to debtors. |
| **Telephone** | Overspent or under-budgeted. Poor control over telephone use. | Investigate usage – may be wastage or valid use.Monitor calls – set rules for private use. Anticipate extra usage or price increases of tariffs. |

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| **2.3** | **RCN TRANSPORT** |
|  | **CASH BUDGET FOR OCTOBER 2015 TO NOVEMBER 2018** |
|  |  |
|  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **October****2018** | **November****2018** |  |
| **CASH RECEIPTS** |  |  |
| Collection from debtors | 147 171 |  165 192 |
| Fee income for services rendered | **62 000** |  **65 400** |
| Rent income | **8 200** |  8 938 |
| Commission income | **4 650** | 4 905 |
| Fixed deposit |  | **10 000** |
| Interest on fixed deposit | **375** 222 396 | 300  245 735 |
| **TOTAL RECEIPTS** |
|  |
| **CASH PAYMENTS** |  |  |
| Fuel and oil | **32 600** | 37 490 |
| Maintenance of vehicles | **24 500** | 24 500 |
| Salaries |  **25 500** | 27 030 |
| Drawings |  500 | 500 |
| Telephone | **2 300** | 2 300 |
| Sundry expenses | **3 120** | 3 198 |
| Interest on loan |  2 750 | 2 750 |
| Purchase of additional vehicle |  91 270**131 126** | 29 440\*127 208\*127 527 |
| **TOTAL PAYMENTS** |
| **SUPLUS/SHORTFALL** |
| Opening Balance | **22 104**153 230 | 153 230280 757 |
| Balance at the end of the month |

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| **EXERCISE 3** |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **3.1** | **Calculate the values marked (A) ‒ (F).**

|  |  |
| --- | --- |
|  | **Calculations** |
| **A** | 1 080 000 x 95% = 1 026 000 ✓✓ |
| **B** | 1 800 000 x 100/160 = 1 125 000 ✓✓ |
| **C** | 360 000 / 2 = 180 000 ✓ |
| **D** | 288 200 ✓ |
| **E** | (675 400) + 288 200 (see D) = (387 200) ✓  |
| **F** | 49 680 x 100/115 = 43 200 ✓ |

 | **8** |

|  |  |  |
| --- | --- | --- |
| **3.2** | **Refer to the figures for “Cash received from debtors”. Are the debtors adhering to the credit terms of the business? Provide figures to support your answer.** **.** **Explanation:** Comparison of budgeted e and actual ✓✓ Figures ✓They should have paid R864 000 and only paid R624 000 | **3** |
| **3.3** | **No new workers were employed during July and August 2018. What could possibly be a reason for the change in each of the actual figures for those two months?**

|  |  |
| --- | --- |
|  | **Reason**  |
| **July**  | Workers worked overtime ✓ |
| **August** | Less workers came to work / Workers were on a strike ✓ |

(Any acceptable answers for both scenarios) | **2** |
| **3.4** | **The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer.**Yes/No  Explanation  Yes* Only hires equipment when necessary
* Does not have to pay maintenance on equipment
* Any other reasonable answer

No* By purchasing their own equipment they will save money as the equipment will last longer than what the repayment period
* The equipment can be rented out to earn an additional income (if it is not in use in the business at that time)
* Any other reasonable answer
 | **5** |
| **3.5** | **The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved.** **Excluding these two items and the renting of equipment (as in 3.4), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.** Item ✓ ✓ Figure ✓ ✓ Advice ✓ ✓

|  |  |  |
| --- | --- | --- |
| **Item** | **Figure** | **Advice** |
| Creditors  | 960 000 or (b) 1 125 000or 1 200 000 | Buy less on credit, attempt more cash sales in order to qualify for a cash discount.  |
| Drawings | 150 000 or210 000 or168 000 | Urge owner to decrease drawings so that the business can recover the cash flow  |
| Salaries and wages | 144 000 to 180 000 or144 000 to 108 000 | Pay workers a fixed salary; employ workers for a fixed term. |

 | **6** |
| **3.6** | **The owner bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person’s point by explaining ONE reason for each.**

|  |  |
| --- | --- |
|  | **Concern** |
| **Driver**  | He was supposed to have first option to buy the vehicle and now he can’t go against the owner of the business. |
| **Finance officer** | The business received R60 000 less (R180 000 ‒ R120 000) than what they would have received if thevehicle was sold to the driver. |

 | **2** |

**EXERCISE 4**

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| --- | --- |
| **4.1** | **Complete the Debtors Collection Schedule to show the total amount expected to be received from debtors during November 2018.** |
|  |  |
|  |

|  |  |  |  |
| --- | --- | --- | --- |
| **MONTH** | **CREDIT SALES** |  | **NOVEMBER 2018** |
| October | 98 000 | x 53% | 51 940  |
| November | 102 900  | x 45% | 46 305  |
| TOTAL |  |  | 98 245  |
|  |

 |
|  |  |
| **4.2.1** | **Expected sales in December 2018** |
|  |  |
|  | 102 900 x 120% = 123 480 |
|  |  |
| **4.2.2** | **The gross profit percentage on turnover for October 2018.** |
|  |  |
|  | 19 600 ÷ 98 000 x 100 = 20%  |
|  |  |
| **4.2.3** | **The percentage increase in rent income.** |
|  | 7 280 – 6 500 x 100 = 12%  6 500  |
|  |  |
| **4.2.4** | **The percentage commission expected to be received each month.** |
|  |  4 900 x 100 = 5% or 5 145/102 900 x 100 = 5%98 000  |
|  |  |
| **4.2.5** | **The insurance amount for each month.** |
|  | 2 400 = 800 3  |
|  |  |
| **4.2.6** | **The amount of the loan that will be repaid on 1 December 2018.** |
|  |  |
|  | a x 0,1 ÷ 12 = 2 500 a = 300 000 b x 0,1 ÷ 12 = 2 000 b = 240 000 amount paid is 300 000 – 240 000 = 60 000  |

|  |  |
| --- | --- |
| **4.3** | **Comment on the variance for each item given. In each case, provide ONE point of advice that the business can use.** |
|  |  |
|  |

|  |  |  |
| --- | --- | --- |
|  | **COMMENT**  | **ADVICE** |
| **Sales** | Received less than the budgeted amount / over-budgeted / expected sales to be higher than what was received. Not well controlled | Monitor sales closely / extend the target market / offer after sales services / discounts / reduce mark- up / clearance sales / give salespersons commission on sales |
| **Advertising** | Spent less than the budgeted amount / over-budgeted / was not effectively applied / may have resulted in the poor actual sales | Use the budget effectively / explore other types of advertising such as flyers / posters / specials / ensure that this is a percentage of sales revenue |
| **Telephone** | Under-budgeted / spent too much / Telephone was used more than expected / telephone may be abused / not well controlled | Monitor the use of the telephone / keep a log book / provide codes for employees / check the statements / restrict private use. |

 |