

Name _____

QUESTION 6: BUDGETING

(40 marks; 25 minutes)

You are provided with information relating to Magic Traders. The business is owned by Tony Salotte.

REQUIRED:

6.1 Complete the following statements:

6.1.1 The main purpose of a Cash Budget is to ... (2)

6.1.2 The main purpose of a Projected Income Statement is to ... (2)

6.2 Debtors' Collection Schedule and Projected Income Statement:

6.2.1 Complete the Debtors' Collection Schedule for June 2018. (7)

6.2.2 Determine the following amounts that will appear in the Projected Income Statement:

- Discount allowed for May 2018 (3)
- Bad debts written off in June 2018 (3)

6.3 Calculate the following:

- Cash sales for May 2018 (2)
- Payment to creditors in June 2018 (4)
- Salaries for May 2018 (5)

6.4 Tony compared the budgeted figures to the actual figures for April 2018.

	BUDGETED	ACTUAL
Sales	R480 000	R576 000
Advertising	R8 000	R11 000
Wages of cleaners	R9 000	R12 500
Cleaning materials	R1 200	R2 700
Payment to creditors	R224 000	R0

6.4.1 Tony is not concerned about the overspending in advertising. Explain why this is so. Quote figures to support your answer. (4)

6.4.2 State ONE consequence of not paying the amount due to creditors in April 2018. (2)

6.4.3 Refer to the figures above and to Information F. State TWO points in favour of appointing Gentex Cleaning Services. Also explain ONE point that Tony should consider before making this decision. (6)

INFORMATION:

A. Total sales:

	ACTUAL	BUDGETED
March 2018	R420 000	
April 2018	R480 000	
May 2018		R300 000
June 2018		R360 000

B. Cash sales amount to 40% of the total sales.

C. Debtors are expected to pay as follows:

- 30% in the month of sales. They receive a 5% settlement discount.
- 60% in the month following the sales month
- 9% in two months after the sales month
- 1% is written off as bad debts in the third month after sales

D. Purchases and payment to creditors:

- The business maintains a fixed-stock base level.
- Goods are sold at a mark-up of 50% on cost.
- 80% of all merchandise purchased is on credit.
- Creditors are paid in full in the month following the purchase month.

E. Salaries:

- Total salaries are R101 500 for April 2018.
- There are 7 employees who earn the same monthly salary.
- 1 employee will resign and leave on 30 April 2018.
- 4 employees will each receive a bonus of 80% of their salaries in May 2018.

F. The business pays wages to two cleaners, one of whom has been on sick leave in April and a substitute had to be employed. Tony is concerned that too much money is wasted on cleaning. He thinks that he should contract Gentex Cleaning Services to take over the cleaning process entirely. They will charge R8 000 per month.

QUESTION 6

6.1.1 The main purpose of a Cash Budget is to ...

6.1.2 The main purpose of a Projected Income Statement is ...

6.2.1 Debtors' Collection Schedule:

	CREDIT SALES	MAY 2018	JUNE 2018
March 2018	252 000	22 680	
April 2018	288 000	172 800	
May 2018		51 300	
June 2018	216 000		
Cash from debtors		246 780	

6.2.2 Determine the discount allowed for May 2018.

Workings	Answer

Determine the bad debts written off in June 2018.

Workings	Answer

6.3 Calculate the cash sales for May 2018.

Workings	Answer

Calculate the payment to creditors in June 2018.

Workings	Answer

Calculate the salaries for May 2018.	
Workings	Answer

- 6.4.1 Tony is not concerned about the overspending in advertising. Explain why this is so. Quote figures to support your answer.

- 6.4.2 State ONE consequence of not paying the amount due to creditors in April 2018.

6.4.3 State **TWO** points in favour of appointing Gentex Cleaning Services.

Point 1:

Point 2:

Explain **ONE** point that Tony should consider before making this decision.