

Name \_\_\_\_\_

### QUESTION 6: BUDGETING

(30 marks; 20 minutes)

You are provided with information relating to Cimpiwe Clothing Shop.

#### REQUIRED:

**6.1 Refer to Information A.**

Identify TWO items in the Cash Budget that will not appear in a Projected Income Statement. (2)

**6.2** Calculate the missing amounts indicated by (i) to (iii) in the Cash Budget for June and July 2019. (7)

**6.3** Calculate the total purchases for April 2019. (2)

**6.4** Complete the Debtors' Collection Schedule for July 2019. (8)

**6.5 Refer to Information F.**

**6.5.1** Comment on the following:

- Effect of the advertising on sales (3)
- Payment to creditors (2)

**6.5.2** Sales strategy:

- Identify TWO strategies (except advertising) that the business used to achieve sales targets for May 2019. Quote figures. (4)
- Explain whether these were good strategies, or not. Provide ONE point with figures. (2)

#### INFORMATION:

**A. Extract from the Cash Budget**

|                                 | JUNE 2019 | JULY 2019 |
|---------------------------------|-----------|-----------|
| <b>CASH RECEIPTS</b>            |           |           |
| Cash sales                      | 186 000   | 285 000   |
| Cash from debtors               | 533 430   | ?         |
| Rent income                     | (i)       | 9 180     |
| Interest on fixed deposit       | 1 800     | 2 200     |
|                                 |           |           |
| <b>CASH PAYMENTS</b>            |           |           |
| Salaries and wages              | 73 400    | 73 400    |
| Fixed deposit: Protea Bank      | 0         | (ii)      |
| Cash purchases of trading stock | ?         | (iii)     |
| Payment to creditors            | 192 000   | ?         |
| Insurance                       | 3 250     | 3 250     |
| Drawings                        | 21 600    | 21 600    |
| Sundry expenses                 | 96 360    | 98 700    |

- B. Cash sales are 25% of total sales.

Collections from debtors:

- 30% in the month of sales less 5% discount
- 65% in the following month
- Provision is made for 5% bad debts.

- C. Budgeted purchases of trading stock:

|       |          |
|-------|----------|
| April | ?        |
| May   | R484 000 |
| June  | R496 000 |
| July  | R760 000 |

- 40% of trading stock is bought on credit.
- Creditors are paid two months after the transaction month.

- D. Rent increased by 8% in July 2019.

- E. The business has a fixed deposit of R360 000. An additional amount is budgeted to be invested on 1 July 2019. Interest (not capitalised) at 6% p.a. is receivable at the end of each month.

- F. Cimpiwe is concerned about the following items for May 2019:

|                         | BUDGETED (R) | ACTUAL (R) | VARIANCE (R) |
|-------------------------|--------------|------------|--------------|
| Cash sales              | 172 000      | 140 000    | – 32 000     |
| Credit sales            | 516 000      | 552 000    | + 36 000     |
| Collection from debtors | 475 000      | 380 000    | – 95 000     |
| Advertising             | 36 000       | 64 800     | + 28 800     |
| Payments to creditors   | 180 000      | 105 000    | – 75 000     |
| Delivery expenses       | 0            | 19 000     | – 19 000     |
| Packing materials       | 3 000        | 2 500      | – 500        |

## QUESTION 6

- 6.1 Identify **TWO** items in the Cash Budget that will not appear in a Projected Income Statement.

- 6.2 (i) Calculate: Rent income, June 2019

| Workings         | Answer |
|------------------|--------|
| <br><br><br><br> |        |

- (ii) Calculate: Fixed deposit: Protea Bank, July 2019

| Workings         | Answer |
|------------------|--------|
| <br><br><br><br> |        |

- (iii) Calculate: Cash purchases of trading stock, July 2019

| Workings         | Answer |
|------------------|--------|
| <br><br><br><br> |        |

6.3

Calculate the total purchases for April 2019.

| Workings | Answer |
|----------|--------|
|          |        |

6.4

**DEBTORS' COLLECTION SCHEDULE**

|       | CREDIT SALES | JUNE    | JULY |
|-------|--------------|---------|------|
| MAY   | 576 000      | 374 400 |      |
| JUNE  |              | 159 030 |      |
| JULY  | 855 000      |         |      |
| TOTAL |              | 533 430 |      |

6.5.1

Comment on the following (provide figures):

Effect of the advertising on sales

Payment to creditors

6.5.2

Identify TWO strategies (except advertising) that the business used to achieve sales targets for May 2019. Quote figures.

Explain whether these were good strategies, or not. Provide ONE point with figures.