

CASH BUDGETS

SPECIFIC OUTCOMES

- * Prepare a debtors collection schedule and/or a creditors payment schedule
- * Prepare a monthly cash budget
- * Prepare a projected income statement for a given period
- * Evaluate and interpret information in a cash budget

What is a budget?

A budget is a formal written statement of management's plans for the future, expressed in financial terms.

The main aim of a business is to make a profit. To realise this goal, thorough planning and control are necessary. Budgeting forms part of this planning.

CASH BUDGET

1. The cash budget presents the expected **inflow** and **outflow** of cash for a specific period. It is a forecast of the effect of the activities of the business on the **cash position**.
2. The **liquidity** of a business is very important and a business should always strive to maintain its liquidity. A cash budget is used to determine whether sufficient cash is generated to settle all obligations.
3. The cash budget contains the following info:
 - Bank balance at the beginning of the period
 - Expected cash receipts
 - Expected cash payments
 - Bank balance at the end of the period
4. The first step in preparing a cash budget is to calculate expected collections from debtors (debtors budget). The debtors collections must be checked well to prevent that debtors payment period (terms) are exceeded.
5. The second step in preparing a cash budget is the preparation of the purchases budget (creditors budget) - when and how much stock is purchased on credit.

ACTIVITY 1

INSTRUCTION

1. Calculate the expected collections from debtors during the budgeting months of January, February and March 2012
2. Calculate the amount written off as bad debts until March 2012
3. Determine the total amount owed by debtors on 31 March 2012.

Tsoko Traders credit sales were as follows:

	Actual	Budgeted
	R	R
November	50 000	
December	70 000	
January		60 000
February		80 000
March		90 000

Credit sales are normally collected as follows:

- 40 % during the month of sales
- 30 % during the month following the month of sales
- 25 % during the second month after sales
- 5 % irrecoverable (bad debts)

ACTIVITY 1

ANSWER SHEET

TSOKO TRADERS

Debtors collection schedule (debtors budget)

	Collection schedule			Bad debts	Debtors
	January	February	March		
	R	R	R	R	R
November					
December					
January					
February					
March					
Expected collections					

2. Amount written of as bad debts:
3. Outstanding debtors:

ACTIVITY 2

INSTRUCTION

Use the given information of Sekoakoa Stores to prepare a debtors collection schedule for the period 1 October 2012 to 31 December 2012. Indicate the following on the schedule:

1. Receipts from debtors for October 2012, November 2012 and December 2012.
2. Discount allowed during the budget period.
3. Bad debts written off during the budget period.
4. The balance of the outstanding debtors on 31 December 2012.

Note: Round off all amounts to the nearest rand

INFORMATION

1. Past experience has shown that debtors pay their debt as follows:
20 % during the month in which the transaction takes place, in which case the debtors receive 10 % discount
60 % in the following month (30 days)
15 % in the month thereafter (60 days)
5 % is normally written off after 90 days
2. The outstanding debtors according to the balance sheet on 30 September 20.2 were R51 187.
3. Actual sales for the previous three months were as follows:

July 2012	R62 500
August 2012	R75 000
September 2012	R87 500
4. Sales forecast for the three months ending December 20.2:

October 2012	R80 000
November 2012	R65 000
December 2012	R90 000
5. Cash sales of merchandise amounts to 35 % of all sales

ACTIVITY 2

ANSWER SHEET

SEKOAKOA STORES

Debtors collection schedule: Budget period 1 October 2012 to 31 December 2012

	Debtors collection			Discount allowed	Bad debts	Outstanding debtors
	October	November	December			
	R	R	R	R	R	R
July						
August						
September						
October						
November						
December						
Total						

TO REMEMBER:

A Debtors collection schedule only involves **credit sales**.

Sales (turnover) = cash sales + credit sales

ACTIVITY 3

Use the information provided about Molefe Stores to prepare the creditors payment schedule for March, April and May 2013.

INFORMATION

- Total sales: February R100 000
March R60 000
April R90 000
May R70 000
- The business uses a mark-up of 100 % on cost.
- Stock sold is replaced in the same month. 10 % of all purchases of stock are for cash. The rest is on credit.
- Creditors are paid as follows: 60 % during the month of purchase
40 % during the month following purchases.

ACTIVITY 3

ANSWER SHEET

MOLEFI STORES

Creditors payment schedule: 1 March 2013 to 31 May 2013

	March	April	May
	R	R	R
February			
March			
April			
May			

Total			
-------	--	--	--

FORMAT OF A CASH BUDGET

NAME OF BUSINESS

CASH BUDGET FOR THE PERIOD ...

	January	February	March
	R	R	R
CASH RECEIPTS			
Cash sales	xx	xx	xx
Cash from debtors	xx	xx	xx
Other receipts (list separately)	xx	xx	xx
TOTAL RECEIPTS A	xxx	xxx	xxx
CASH PAYMENTS			
Cash purchases of trading stock	xx	xx	xx
Payments to creditors	xx	xx	xx
Operating expenses (specify)	xx	xx	xx
Income tax	xx	xx	xx
Dividends	xx	xx	xx
Interest on borrowed money	xx	xx	xx
Other payments (list separately)	xx	xx	xx
TOTAL PAYMENTS B	xxx	xxx	xxx
Cash surplus (shortfall) A - B	xxx	xxx	xxx
Bank - opening balance [favourable/(overdraft)]	xx	xxx*	(xxx)
Bank - closing balance [favourable/(overdraft)]	xxx*	(xxx)	xxx

TO REMEMBER:

- * The closing balance of the bank in one month is the opening balance of the bank in the next month.*
- * In the total column the opening balance of the bank as on 1 January, must represent the beginning of the budget period and the closing balance as on 31 March the end of the budget period.

* Depreciation and bad debts must be ignored, since it has no influence on cash transactions.

ACTIVITY 4

INSTRUCTION

Use the following information to prepare the cash budget of Luxury Stores for the months January, February and March 2012

INFORMATION

	Actual	Budgeted		
	December	January	February	March
	R	R	R	R
Credit sales	80 000	64 000	56 000	60 000
Cash sales		44 000	38 000	40 000
Cash purchases	65 000	54 000	48 000	46 000
Credit purchases	40 000	37 000	38 000	36 000

1. Favourable bank balance on 1 January 2012, R8 200.
2. Collections from debtors for credit sales are normally 20 % in the same month in which the transaction takes place and 75 % after 30 days. 5 % is normally written off after 60 days.
3. Creditors are paid one month after the date of the invoice and a discount of 10 % is received.
4. Operating expenses, including depreciation of R2 000, amount to an average of R12 000 per month.
5. The interest rate on the fixed deposit of R18 000 is 14 % p.a. Interest is received monthly. The interest rate on the fixed deposit is to be increased to 15 % p.a. from 1 March 2012.
6. The business has only one vehicle. It was decided to trade it in on a new vehicle on 1 February 2012. The following quotation was received and accepted:

Cost price of new vehicle

R85 000

Trade-in value of old vehicle R20 000
 Suggested deposit - payable in February?
 (10 % of remaining cost price)

Balance payable in monthly instalments from 31 March 2012, R1 800.

ACTIVITY 4

ANSWER SHEET

LUXURY STORES

CASH BUDGET FOR THE PERIOD JANUARY, FEBRUARY AND MARCH 2012

	January	February	March
	R	R	R
CASH RECEIPTS			
Cash sales			
Cash from debtors			
Interest on fixed deposit			
TOTAL RECEIPTS			
CASH PAYMENTS			
Cash purchases			
Payments to creditors			
Operating expenses			
Vehicles (deposit)			
Instalment on vehicle			
TOTAL PAYMENTS			
Cash surplus (Shortfall)			
Bank - opening balance			
Bank - closing balance			

Calculations:

Debtors collection schedule

	Credit sales	January	February	March

	R	R	R	R
December				
January				
February				
March				
Total				

PROJECTED INCOME STATEMENT

1. The projected income statement indicates the expected profitability of the operations of the business over the budget period. The budget income statement is compiled after the operating budgets have been completed and is a combination of these budgets.
2. There are certain items which will appear in the projected Income Statement of a company and not in the projected income statement of a sole trader for example audit fees, directors fees, dividends and tax paid.
3. To prepare a monthly forecast income statement the following information should be taken in consideration:
 - ❑ The income statement of the past year (period).
 - ❑ Expected monthly sales (turnover) or information which enables the amount to be calculated.
 - ❑ Expected percentage gross profit margin on cost of sales **or** turnover.
 - ❑ Expected other monthly income.
 - ❑ Expected monthly expenses

TO REMEMBER:

- * Divide the figures by 12 (or the given period of the previous income statement).
- * It is assumed that income earned and expenses are spread evenly throughout the year.

ACTIVITY 5

INSTRUCTION

The given information was taken from the records of Thatedi Traders. You are required to prepare a projected income statement for the months March and April 2012.

THATEDI TRADERS

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2012

	Notes	R	R
Turnover for the year			1 080 000
Cost of sales			648 000
Gross profit			432 000
Other operating income			21 600
Rent income		21 600	
Gross operating income			453 600
Operating expenses			(346 050)
Bad debts		1 440	
Salaries		140 400	
Wages		124 200	
Repairs		3 960	
Depreciation		43 650	
Other expenses		32 400	
Operating profit			107 550
Interest income	1		8 100
Profit before interest expenses			115 650
Interest expenses	2		(22 680)
Net profit for the year			92 970

Additional information

1. The average monthly sales are expected to decrease by 15 % during March 2012, thereafter an increase of 25 % during April 2012.
2. The gross profit margin of 40 % on sales is maintained.
3. It is expected that the owner will increase the rental by 10 % on 1 April 2012.
4. Bad debts should not increase.
5. An increase of 7½ % in wages and salaries has been approved and will come into effect on 1 April 2012.
6. Repairs are expected to increase by 15 % and must be spread evenly over the year.
7. Depreciation should amount to R40 500 for the next year. (R38 000 for vehicles and R2 500 for equipment).
8. All other operating expenses are expected to increase by 20 % and are spread evenly over the year.
9. Interest on Fixed deposit is received annually on 31 March and spread evenly over the year. The Fixed deposit at AB Bank matures on 31 March 2013.
10. On 1 March 2012 R30 000 will be paid off on the bond. Interest on the bond is calculated at 18 % p.a. and paid quarterly.

ACTIVITY 5**ANSWER SHEET****THATEDI TRADERS****FORECAST MONTHLY INCOME STATEMENT FOR THE TWO MONTH PERIOD ENDED
30 APRIL 2012**

	March	April	Total
	R	R	R
Turnover for the year			
Cost of sales			
Gross profit			
Other operating income			
Rent income			
Gross operating income			
Operating expenses			
Bad debts			
Salaries			
Wages			
Repairs			
Depreciation			
Other expenses			
Operating profit			
Interest income			
Profit before interest expenses			
Interest expense			

Net profit for the period			
---------------------------	--	--	--

ACTIVITY 6

Khetiwe Kunene intends to start her own business, Khetiwe’s Boutique, on 1 September 2012. You are provided with the cash budget for the first four months of trading.

INSTRUCTION

Carefully study this budget and then answer the questions that follow.

Khetiwe Kunene intends to use a mark-up of 66 2/3 % on cost and she expects the total sales to be as follows:

September	R300 000
October	R306 000
November	R312 120
December	R318 362

She will replace the stock on a monthly basis and she will maintain a fixed stock level of R180 000 (cost price).

**KHETIWE’S BOUTIQUE
CASH BUDGET FOR THE FOUR MONTHS ENDING 31 DECEMBER 2012**

	September	October	November	December
	R	R	R	R
RECEIPTS				
Cash sales	225 000	229 500	234 090	238 772
Receipts from debtors	0	45 000	73 650	57 176
Capital	80 000	0	0	0
Loan from Success Bank	0	0	120 000	0
Total receipts	305 000	274 500	427 740	295 948
PAYMENTS				

Cash purchase of stock	72 000	73 440	74 090	76 407
Payments to creditors	0	102 600	104 652	106 745
Rental of premises	6 000	6 000	6 000	6 720
Purchase of equipment	60 000	0	30 000	0
Salaries and wages	82 000	82 000	102 000	102 000
Interest on loan	0	0	0	1 600
Advertising	25 000	0	0	0

Other expenses	23 000	23 230	23 462	23 697
Drawings	15 000	15 000	15 000	15 000
Total payments	283 000	302 270	356 023	332 169
CASH SURPLUS (SHORTFALL)	22 000	(27 770)	71 717	?
Bank - opening balance	0	22 000	(5 770)	?
Bank - closing balance	22 000	(5 770)	65 947	?

Questions

- Calculate the cash on hand at the end of December 2012.
- In your opinion, is Khetiwe's capital contribution sufficient to support her business? Explain briefly.
- Give a possible reason for the loan taken out in November.
- Calculate the percentage rate of interest on the loan per year.
- What percentage of the sales will be on credit?
- What proportion of the debtors are expected to settle their accounts within one month? Comment briefly on your answer.
- Comment briefly on the drawings which Khetiwe intends to take each month. Is this a good idea?
- Khetiwe expects to employ an extra five sales assistants on equal pay from 1 November 2012. How much does she intend to pay each of them per month?
- Khetiwe will settle her creditors after 30 days. What cash discount does she expect to receive from them in October?
- Comment briefly on Khetiwe's plans for advertising. Do you agree with her policy?

CASH BUDGETS

ACTIVITY 1

SOLUTION

TSOKO TRADERS

Debtors collection schedule (debtors budget)

	Collection schedule			Bad debts	Debtors
	January	February	March		
	R	R	R	R	R
November R50 000 x 40 % (Nov)					
R50 000 x 30 % (Dec)					
R50 000 x 25 %	12 500			2 500	
December R70 000 x 40 % (Dec)					
R70 000 x 30 %	21 000				
R70 000 x 25 %		17 500		3 500	
January R60 000 x 40 %	24 000				
R60 000 x 30 %		18 000			
R60 000 x 25 %			15 000	3 000	
February R80 000 x 40 %		32 000			
R80 000 x 30 %			24 000		24 000

March	R90 000 x 40 %			36 000		54 000
Expected collections		57 500	67 500	75 000	9 000	78 000

2. Amount written off as bad debts: R9 000
3. Outstanding debtors: R78 000

ACTIVITY 2

SOLUTION

SEKOAKOA STORES

DEBTORS COLLECTION SCHEDULE: BUDGET PERIOD 1 OCTOBER 2012 TO 31 DECEMBER 2012

	Debtors collection			Discount allowed	Bad debts	Outstanding debtors
	October	November	December			
	R	R	R	R	R	R
July					2 031 40 625 x 5 %	
August	7 313 48 750 x 15 %				2 438 48 750 x 5 %	
September	34 125 56 875 x 60 %	8 531 56 875 x 15 %			2 844 56 875 x 5 %	
October	9 360 (1)	31 200 52 000 x 60 %	7 800 52 000 x 15 %	1 040 (1)		2 600
November		7 605 (2)	25 350 42 250 x 60 %	845 (2)		8 450
December			10 530 (3)	1 170 (3)		46 800
Total	50 798	47 336	43 680	3 055	7 313	57 850

Calculations:

TO REMEMBER:

A Debtors collection schedule only involves **credit sales**.

Sales (turnover) = cash sales + credit sales

Cash sales = 35 % of total sales
 Credit sales = 65 % of total sales

Credit sales:

July	R62 500 x 65 % = R40 625
August	R75 000 x 65 % = R48 750
September	R87 500 x 65 % = R56 875
October	R80 000 x 65 % = R52 000
November	R65 000 x 65 % = R42 250
December	R90 000 x 65 % = R58 500

4. R52 000 x 20 % = R10 400
 R10 400 x 10 % = R1 040 (Discount allowed)
 R10 400 - R1 040 = R9 360 (Amount received for October)
5. R42 250 x 20 % = R8 450
 R8 450 x 10 % = 845 (Discount allowed)
 R8 450 - 845 = 7 605 (Amount received for November)
6. R58 500 x 20 % = R11 700
 R11 700 x 10 % = 1 170 (Discount allowed)
 R11 700 - 1 170 = 10 530 (Amount received for December)

ACTIVITY 3

SOLUTION

MOLEFI STORES

CREDITORS PAYMENT SCHEDULE: 1 MARCH 2013 TO 31 MAY 2013

	March	April	May
	R	R	R
February	18 000 45 000 x 40 %		
March	16 200 27 000 x 60 %	10 800 27 000 x 40 %	
April		24 300 40 500 x 60 %	16 200 40 500 x 40 %
May			18 900 31 500 x 60 %

Total	34 200	35 100	35 100
-------	--------	--------	--------

Calculations:

Total purchases:	February	$R100\ 000 \times \frac{100}{200} = R50\ 000$
	March	$R60\ 000 \times \frac{100}{200} = R30\ 000$
	April	$R90\ 000 \times \frac{100}{200} = R45\ 000$
	May	$R70\ 000 \times \frac{100}{200} = R35\ 000$

Credit purchases:	February	$R50\ 000 \times 90\% = R45\ 000$
	March	$R30\ 000 \times 90\% = R27\ 000$
	April	$R45\ 000 \times 90\% = R40\ 500$
	May	$R35\ 000 \times 90\% = R31\ 500$

ACTIVITY 4

SOLUTION

LUXURY STORES

CASH BUDGET FOR THE PERIOD JANUARY, FEBRUARY AND MARCH 2012

	January	February	March
	R	R	R
CASH RECEIPTS			
Cash sales	44 000	38 000	40 000
Cash from debtors	72 800	59 200	54 000
Interest on fixed deposit	210	210	225
TOTAL RECEIPTS	117 010	97 410	94 225
CASH PAYMENTS			
Cash purchases	54 000	48 000	46 000

Payments to creditors	36 000	33 300	34 200
Operating expenses	10 000	10 000	10 000
Vehicles (deposit)	-	6 500	-
Instalment on vehicle	-	-	1 800
TOTAL PAYMENTS	100 000	97 800	92 000
Cash surplus (Shortfall)	17 010	(390)	2 225
Bank - opening balance	8 200	25 210	24 820
Bank - closing balance	25 210	24 820	27 045

Calculations:

Debtors collection schedule

	Credit sales	January	February	March
	R	R	R	R
December	80 000	60 000	-	-
January	64 000	12 800	48 000	-
February	56 000	-	11 200	42 000
March	60 000	-	-	12 000
Total		72 800	59 200	54 000

Interest on fixed deposit:

$$R18\ 000 \times \frac{14}{100} \times \frac{1}{12} = R210 \quad (\text{January and February})$$

$$R18\ 000 \times \frac{15}{100} \times \frac{1}{12} = R225 \quad (\text{March})$$

Payments to creditors:

Credit purchases:

December	R40 000 x 10 % = R4 000 (discount)
	R40 000 - R4 000 = R36 000 - payment in January
January	R37 000 x 10 % = R3 700
	R37 000 - R3 700 = R33 300 - payment in February
February	R38 000 x 10 % = 3 800
	R38 000 - R3 800 = R34 200 - payment in March

Operating expenses:

$$R12\ 000 - R2\ 000 = R10\ 000 \quad (\text{Depreciation has no effect on cash})$$

Vehicles:

$R85\ 000 - R20\ 000 = R65\ 000$

$R65\ 000 \times 10\ \% = R6\ 500$

ACTIVITY 5

SOLUTION

THATEDI TRADERS

FORECAST MONTHLY INCOME STATEMENT FOR THE TWO MONTH PERIOD ENDED 30 APRIL 2012

	March	April	Total
	R	R	R
Turnover for the year	76 500,00	95 625,00	172 125,00
Cost of sales	(45 900,00)	(57 375,00)	103 275,00
Gross profit	30 600,00	38 250,00	68 850,00
Other operating income			
Rent income	1 800,00	1 980,00	3 780,00
Gross operating income	32 400,00	40 230,00	72 630,00
Operating expenses	(29 164,50)	(30 818,25)	(59 982,75)
Bad debts	120,00	120,00	240,00
Salaries	11 700,00	12 577,50	24 277,50
Wages	10 350,00	11 126,25	21 476,25
Repairs	379,50	379,50	759,00
Depreciation	3 375,00	3 375,00	6 750,00

Other expenses	3 240,00	3 240,00	6 480,00
Operating profit	3 235,50	9 411,75	12 647,25
Interest income	675,00	675,00	1 350,00
Profit before interest expenses	3 910,50	10 086,75	13 997,25
Interest expense	(1 440,00)	(1 440,00)	(2 880,00)
Net profit for the period	2 470,50	8 646,75	11 117,25

Calculations

Turnover:

March

$$R1\ 080\ 000 \times 15\ \% = R162\ 000$$

$$R1\ 080\ 000 - R162\ 000 = R918\ 000$$

$$R918\ 000 \div 12 = R76\ 500$$

April

$$R918\ 000 \times 25\ \% = R229\ 500$$

$$R918\ 000 + R229\ 500 = R1\ 147\ 500$$

$$R1\ 147\ 500 \div 12 = R95\ 625$$

Gross profit:

March $R76\ 500 \times 40\ \% = R30\ 600$

April $R95\ 625 \times 40\ \% = R38\ 250$

OR

Cost of sales:

March $R76\ 500 \times 60\ \% = R45\ 900$

April $R95\ 625 \times 60\ \% = R57\ 375$

Rent income:

March $R21\ 600 \div 12 = R1\ 800$

April $R1\ 800 \times 110\ \% = R1\ 980$

Bad debts:

$$R1\ 440 \div 12 = R120$$

Salaries:

March $R140\ 400 \div 12 = R11\ 700$

April $R11\ 700 \times 107,5\ \% = R12\ 577,50$

Wages:

March $R124\ 200 \div 12 = R10\ 350$

April $R10\ 350 \times 107,5\ \% = R11\ 126,25$

Repairs:

$$R3\ 960 \times 115\ \% \div 12 = R379,50$$

Depreciation:

$$R40\ 500 \div 12 = R3\ 375$$

Other expenses:

$$R32\ 400 \times 120\ \% \div 12 = R3\ 240$$

Interest income:

$$R8\ 100 \div 12 = R657$$

Interest expense:

$$\text{Bond} \times 18\ \% = R22\ 680 \quad \text{Bond} = R126\ 000$$

$$R126\ 000 - R30\ 000 = R96\ 000$$

$$R96\ 000 \times 18\ \% \div 12 = R1\ 440$$

ACTIVITY 6

SOLUTION

- $R295\ 948 - R332\ 169 + R65\ 947 = R29\ 726$
- No. By the end of October she was already overdrawn by R5 770. In spite of the loan of R120 000 the expected bank balance at the end of December is only R29 726. The cash receipts for October and December are not sufficient to cover the cash payments.
- Because of the shortfall in October.
Because of cash purchase of equipment in the same month.
- $$\frac{R1\ 600}{R120\ 000} \times \frac{100}{1} \times \frac{12}{1} = 16\ %$$
- $$\frac{R75\ 000}{R300\ 000} \times \frac{100}{1} = 25\ %$$
- Total sales of March: $R300\ 000 \times 25\ % = R75\ 000$
$$\frac{R45\ 000}{R75\ 000} \times \frac{100}{1} = 60\ %$$

All debtors should pay within 30 days and not only 60 % of the debtors.
- Drawings of R15 000 per month are too high. After only four months there will be R60 000 withdrawn, which is 75 % of the capital.

8. $\frac{R102\ 000 - R82\ 000}{5} = R4\ 000$ per month

9. $R180\ 000 - R72\ 000 = R108\ 000$ (Credit purchases)
 $R108\ 000 - R102\ 600 = R5\ 400$ (Discount)

$$\frac{R5\ 400}{R108\ 000} \times \frac{100}{1} = 5\%$$

10. No. Advertising should take place regularly and not only in one month.

11. Insurance
Rent Expense

12. Depreciation
Bad debts
Discount allowed