



## PRESENTATION: CASH BUDGETS 50 MARKS

### Background information

You are provided with information relating to Party Dress Shop. Kash Chand owns the business. Kash believes that she has established a reputable name for her business. So far she has been more than satisfied with the financial results of the business. However, the budget for the next three months has not provided her with much confidence.

She has appointed you to provide her with advice and strategies to improve the cash flow of her business. Use the information provided to prepare a presentation taking into account the following:

- 1 Definition of a budget and an explanation of budgeting periods.
- 2 Advantages of budgeting.
- 3 Complete the Debtors Collection Schedule and the Cash Budget.
- 4 Make comments on the collection from debtors and payments to creditors. What strategies the business should adopt in this regard?
- 5 Use the prepared cash budget to discuss:
  - Whether the business will experience a liquidity problem within the next three months? Explain the main reasons for your answer.
  - What strategies can be put into place to improve the liquidity situation?
- 6 Discuss the following factors to ensure effective and reliable forecasting:
  - Past transactions
  - External factors
  - Management
  - Contractual obligations
  - Internal control and Ethical business practices

### Information

**KASH PARTY DRESS SHOP**  
**DEBTORS COLLECTION SCHEDULE FOR 1 JULY 20.9 TO 30 SEPTEMBER 20.9**

<b>Credit Sales</b>	<b>July 20.9 R</b>	<b>August 20.9 R</b>	<b>September 20.9 R</b>	<b>Debtors control R</b>	<b>Bad Debts R</b>
October 48 000	32 640				960
November					
December					
January					
Total					

## KASH PARTY DRESS SHOP

### CASH BUDGET FOR PERIOD 1 JULY 20.9 TO 30 SEPTEMBER 20.9

#### Cash receipts

	July 20.9 R	August 20.9 R	September 20.9 R
Collections from debtors	?	?	?
Cash sales	?	?	?
Interest on current account	100		
Proceeds of fixed deposit		12 360	
<b>Total receipts</b>	?	?	?
<b>Cash payments</b>			
Cash purchases of stock	?	?	?
Payments to creditors (for stock)	?	?	?
Wages to bookkeeper	5 200	5 200	5 200
Rent paid	8 500	8 500	9 350
Salaries to employees	44 000	40 500	43 740
Other operating expenses	8 300	8 900	9 500
Cash drawings by owner	15 000	15 000	15 000
Deposit on new vehicle		35 000	
Instalment on vehicle			?
Interest on overdraft		343	23
<b>Total payments</b>	?	?	?
Cash surplus /(deficit)	?	?	?
Bank balance at beginning of month	24 000	?	?
Bank balance at end of month	?	?	?

#### Additional Information

##### 1 Sales and cost of sales:

June 20.9  
July 20.9  
August 20.9  
September 20.9

Actual sales R	Budgeted sales R	Cost of sales R
120 000		80 000
	105 000	70 000
	270 000	180 000
	105 000	70 000

40% of the total sales is sold on credit.

Debtors are expected to pay their accounts as follows:

- 30% settle their accounts in the same month as the credit sale.
- 68% settle in the month following the transaction month.
- 2% is to be written off.

A fixed level of trading inventory on hand is maintained throughout the year through replacement on a monthly basis.

Purchases of stock:

- 70% of inventory is bought on credit.
- Creditors are paid in full in the month following the month of purchase to qualify for a 5% settlement discount.

- 2 Six full time and one part-time employee earned total salaries of R44 000 for July 20.9. The part-time employee, who earns R3 500 per month, will leave the business at the end of July 20.9. The salaries of the remaining employees will be increased with effect from 1 September 20.9.

- 3 A vehicle with a carrying value of R48 000 will be traded in at book value on 1 August 20.9 for a new vehicle costing R350 000. A deposit of R35 000 will be paid on 1 August 20.9 and the balance of the outstanding amount will be paid in 10 equal installments commencing 1 September 20.9.
- 4 The business has an overdraft of R22 860 on 30 November 20.8. Interest is calculated by the bank (on the previous month-end balances) at the beginning of each month. Provide for interest at the following rates (calculate your answers to the nearest rand):
  - Unfavourable balance: 18% p.a.
  - Favourable balance: 5% p.a.

Task assessment rubric: Presentation					
Criteria	1 marks	2-4 marks			
Definition and budgeting period	Defines Cash Budget	Defines Cash budget and explains budgeting periods			
Criteria	1-2 marks	3-6 marks			
Advantages of budgeting	Provides a reason	Provides detailed reasons			
Criteria	1-2 marks	3-4 marks	5-6 marks	7-8 marks	9-10 marks
Preparation of Debtors Collection Schedule and Cash Budget	Debtors Collection and Budget has some correct amounts	Debtors and Collection Schedule and Budget is complete with at least 25% correct amounts	Debtors and Collection Schedule and Budget is complete with at least 50% correct amounts	Debtors and Collection Schedule and Budget is complete with at least 75% with correct amounts	Debtors and Collection Schedule and Budget is correctly completed with correct amounts
Comments on debtors and creditors collection	Brief comments	Comment and mentioning of acceptable ratio	Comments and brief strategies mentioned	Comments with good strategies mentioned	Comments and excellent strategies mentioned
Criteria	1-2 marks	3-4 marks	5-6 marks	7-8 marks	9-10 marks
Comments from Cash Budget On Liquidity	List liquidity problems and its causes in detail.	List liquidity problems and its cause in detail. Able to provide a solution	List liquidity problems and its causes in detail. Able to provide a few solutions	List liquidity problems and its causes in detail. Able to provide a few good solutions	List liquidity problems and its causes in detail. Able to provide a few excellent solutions
Criteria	1-2 marks	3-4 marks	5-6 marks	7-8 marks	9-10 marks
Effective and reliable forecasting	At least one comment made	Comments shows that the learners has some understanding	Comments shows understanding	Good comments showing understanding Evident that research was done	Excellent comments showing understanding Evident that extensive research was done
Total (out of 50)					