

Topic 7: Budgets

Activity 1

1. It is important to prepare a Cash Budget for each financial year:
 - To plan for future receipts and payments of cash
 - To keep control of money coming in and going out of the business
 - To ensure that sufficient cash is available at all times to meet obligations.
- 2.1 It is not a cash amount.
- 2.2 Yes, because it is a cash item.
3.
$$\frac{7\,500}{50\,000} \times \frac{100}{1} = 15\%$$
4. Any two:
 - Depreciation
 - Discount received
 - Profit on sale of asset
 - Loss on sale of asset
 - Discount allowed.
5. Any two:
 - Office telephone and electricity
 - Motor vehicle running expenses
 - Office maintenance costs.
6. Any two:
 - Manager's salary
 - Drawings by Betty Blue
 - Bank charges
 - Staff uniforms.
- 7.1 It increases by about R50 000 per year. It is too high. She should decrease her withdrawals.
- 7.2 It is an overdraft.

Activity 2

Month	Total sales	Cash sales	Credit sales	Total purchases	Cash purchases	Credit purchases
January	480 000	192 000	288 000	360 000	36 000	324 000
February	500 000	200 000	300 000	375 000	37 500	337 500
March	560 000	224 000	336 000	420 000	42 000	378 000

Activity 3

Month	Total sales	Cash sales	Credit sales	Total purchases	Cash purchases	Credit purchases
August	180 000	144 000	36 000	120 000	36 000	84 000
September	210 000	168 000	42 000	140 000	42 000	98 000
October	240 000	192 000	48 000	160 000	48 000	112 000

Activity 4

Solomon Traders**DEBTORS COLLECTION SCHEDULE FOR THE THREE MONTHS ENDED 31 DECEMBER 2018**

		AMOUNT COLLECTED IN EACH MONTH		
Month	Credit sales	October 2018	November 2018	December 2018
August	140 000	14 000	–	–
September	120 000	78 000	12 000	–
October	150 000	28 500	97 500	15 000
November	180 000	–	34 200	117 000
December	200 000	–	–	38 000
TOTAL	–	120 500	143 700	170 000

Activity 5

Lesedi Suppliers**DEBTORS COLLECTION SCHEDULE FOR THE THREE MONTHS ENDED 30 JUNE 2018**

		AMOUNT COLLECTED IN EACH MONTH		
Month	Credit sales	April 2018	May 2018	June 2018
February	165 000	13 200		
March	180 000	144 000	14 400	
April	150 000	14 100	120 000	12 000
May	195 000	–	18 330	156 000
June	210 000	–	–	19 740
TOTAL	–	171 300	152 730	187 740

Activity 6

Fouché Traders**CREDITORS COLLECTION SCHEDULE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2018**

		AMOUNT PAID IN EACH MONTH		
Month	Credit purchases	July 2018	August 2018	September 2018
May	120 000	30 000		
June	140 000	84 000	35 000	
July	100 000	14 250	60 000	25 000
August	160 000	–	22 800	96 000
September	180 000	–	–	25 650
TOTAL	–	128 250	117 800	146 650

Activity 7

Naidoo Traders

CREDITORS COLLECTION SCHEDULE FOR THE THREE MONTHS ENDED 30 JUNE 2018

Month	Credit purchases	AMOUNT PAID IN EACH MONTH		
		April 2018	May 2018	June 2018
January	112 500	5 625		
February	157 500	118 125	7 875	
March	165 000	33 000	123 750	8 250
April	150 000	–	30 000	112 500
May	172 500	–	–	34 500
June	180 000	–	–	–
TOTAL	–	156 750	161 625	155 250

Remember:

To calculate the total purchases from the total sales:

$$\text{Total purchases (or Cost of sales)} = \frac{100}{160} \times \text{Total sales}$$

To calculate the credit purchases from the total purchases:

$$\text{Credit purchases} = \frac{60}{100} \times \text{Total purchases}$$

Activity 8

1.1

Tshidi Traders

DEBTORS COLLECTION SCHEDULE FOR THE THREE MONTHS ENDED 31 MARCH 2019

Month	Credit sales	AMOUNT COLLECTED IN EACH MONTH		
		January 2019	February 2019	March 2019
November	128 000	23 040		
December	134 400	40 320	24 192	
January	140 000	70 000	42 000	25 200
February	154 000	–	77 000	46 200
March	169 400	–	–	84 700
TOTAL	–	133 360	143 192	156 100

1.2

Tshidi Traders

CASH BUDGET FOR THE THREE MONTHS ENDED 31 MARCH 2019

	January 2019	February 2019	March 2019
CASH RECEIPTS			
Cash sales	210 000	231 000	254 100
Collections from debtors	133 360	143 192	156 100
Sale of vehicle	35 000		
Loan from KZN Bank	10 000		
TOTAL RECEIPTS	388 360	374 192	410 200
CASH PAYMENTS			
Payments to creditors	197 400	205 625	226 187
Salaries and wages	43 200	43 200	55 350

Advertising	3 500	3 850	4 235
Sundry expenses	69 500	70 000	70 500
Vehicle instalment (130 000 ÷ 10)			13 000
Drawings	4 500	4 500	5 000
Interest on loan			1 650
TOTAL PAYMENTS	318 100	327 175	375 922
CASH SURPLUS (DEFICIT)	70 260	47 017	34 278
Bank opening balance	1 050	71 310	118 327
Bank closing balance	71 310	118 327	152 605

- 2.1 Yes, as a result both credit sales and cash sales have increased.
- 2.2 No, the projected bank balance (January – March) is favourable (from R71 310 to R118 327 to R153 105). There is no reason to take the additional loan of R10 000, because it will incur an unnecessary additional expense in terms of interest payable.

Activity 9

1.

London Traders

DEBTORS COLLECTION SCHEDULE FOR THE TWO MONTHS ENDED 28 FEBRUARY 2022

Month	Credit sales	AMOUNT COLLECTED IN EACH MONTH	
		January 2022	February 2022
Previous months		34 560	3 024
January	45 000	12 825	27 000
February	54 000	–	15 390
TOTAL		47 385	45 414

2.

London Traders

CASH BUDGET FOR THE TWO MONTHS ENDED 28 FEBRUARY 2022

	January 2022	February 2022
CASH RECEIPTS		
Cash sales	30 000	36 000
Cash from debtors	47 385	45 414
Rent income	2 400	2 760
Fixed deposit	60 000	–
Interest on fixed deposit	525	250
Sale of vehicle	21 000	–
TOTAL RECEIPTS	161 310	84 424
CASH PAYMENTS		
Payments to creditors	51 800	46 250
Other current expenses	28 000	28 000
Fixed deposit	30 000	–
Vehicles	20 000	7 700
Wages and salaries	21 000	24 000
Drawings	–	6 000
TOTAL PAYMENTS	150 800	111 950
CASH SURPLUS (DEFICIT)	10 510	(27 526)
Bank opening balance	(4 400)	6 110
Bank closing balance	6 110	(21 416)

Activity 10

1.

Durban Distributors

DEBTORS COLLECTION SCHEDULE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2018

Month	Credit sales	AMOUNT COLLECTED IN EACH MONTH		
		July 2018	August 2018	September 2018
May	336 000	84 000		
June	320 000	96 000	80 000	
July	352 000	132 352	105 600	88 000
August	384 000	–	144 384	115 200
September	416 000	–	–	156 415
TOTAL	–	312 352	329 984	359 616

2.

Durban Distributors

CREDITORS COLLECTION SCHEDULE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2018

Month	Credit purchases	AMOUNT PAID IN EACH MONTH		
		July 2018	August 2018	September 2018
May	226 800	90 720		
June	216 000	129 600	86 400	
July	237 600	–	142 560	95 040
August	259 200	–	–	155 520
September	280 800	–	–	–
Totals	–	220 320	228 960	250 560

3.

Durban Distributors

CASH BUDGET FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2018

	July 2018	August 2018	September 2018
RECEIPTS			
Cash sales	88 000	96 000	104 000
Collection from debtors	312 352	329 984	359 616
Rent income	5 000	6 000	6 000
Interest on fixed deposit	400	400	600
Old equipment sold	–	–	20 000
TOTAL RECEIPTS	405 752	432 384	490 216
PAYMENTS			
Cash purchases	26 400	28 800	31 200
Payments to creditors	220 320	228 960	250 560
Sundry expenses	33 500	36 000	38 500
Fixed deposit	–	–	30 000
Donations	–	10 000	–
Salaries and wages	129 430	129 430	129 430
TOTAL PAYMENTS	409 650	433 190	479 690
CASH SURPLUS (DEFICIT)	(3 898)	(806)	10 526
Bank opening balance	4 000	102	(704)
Bank closing balance	102	(704)	9 822

Activity 11

Krykkaar Traders PROJECTED INCOME STATEMENT FOR THE TWO MONTHS ENDED 30 SEPTEMBER 2019

	August 2019	September 2019	Total
Sales	76 500,00	95 625,00	172 125,00
Cost of sales (Sales – Gross profit)	(45 900,00)	(57 375,00)	(103 275,00)
Gross profit	30 600,00	38 250,00	68 850,00
Other operating income	1 992,00	1 992,00	3 984,00
Rent income	1 980,00	1 980,00	3 960,00
Bad debts recovered	12,00	12,00	24,00
Gross operating income	32 592,00	40 242,00	72 834,00
Operating expenses	(29 029,50)	(30 683,25)	(59 712,75)
Repairs	379,50	379,50	759,00
Wages	10 350,00	11 126,25	21 476,25
Bad debts	120,00	120,00	240,00
Salaries	11 700,00	12 577,50	24 277,50
Sundry expenses	3 105,00	3 105,00	6 210,00
Depreciation	3 375,00	3 375,00	6 750,00
Operating profit	3 562,50	9 558,75	13 121,25
Interest income	675,00	675,00	1 350,00
Profit before interest expense	4 237,50	10 233,75	14 471,25
Interest expense	(1 530,00)	(1 530,00)	(3 060,00)
FORECAST PROFIT (LOSS)	2 707,50	8 703,75	11 411,25

Calculations:

- Sales

$$R1\ 080\ 000 \div 12 = R90\ 000 \text{ p.m.}$$

August: $R90\ 000 - 15\% = R76\ 500$

September: $R76\ 500 + 25\% = R95\ 625$
- Gross profit

August:

$$R76\ 500 \times \frac{40}{100} = R30\ 600$$

September:

$$R95\ 625 \times \frac{40}{100} = R38\ 250$$
- Rent

$$R21\ 600 \div 12 = R1\ 800 \text{ p.m.}$$

$$R1\ 800 + 10\% = R1\ 980$$
- Interest on investment

$$R8\ 100 \div 12 = R675$$

5. Interest on mortgage bond
 $R22\ 680 \div 12 = R1\ 890$ and
 $R24\ 000 \times \frac{18}{100} \times \frac{1}{12} = R360$
 Therefore, $R1\ 890 - R360 = R1\ 530$
6. Wages and salaries
 August: Wages $R124\ 200 \div 12 = R10\ 350$
 Salaries $R140\ 400 \div 12 = R11\ 700$
 September: Wages $R10\ 350 + 7,5\% = R11\ 126,25$
 Salaries $R11\ 700 + 7,5\% = R12\ 577,50$
7. Repairs
 $R3\ 960 \div 12 = R330$
 $R330 + 15\% = R379,50$
8. Bad debts
 $R1\ 440 \div 12 = R120$
9. Sundry expenses
 $R32\ 400 \div 12 = R2\ 700$
 $R2\ 700 + 15\% = R3\ 105$
10. Depreciation
 $R40\ 500 \div 12 = R3\ 375$
11. Bad debts recovered
 $R1\ 440 \div 12 = R120$

Activity 12

Blue River Traders PROJECTED INCOME STATEMENT FOR THE TWO MONTHS ENDED 31 DECEMBER 2018

	November 2019	December 2019	Total
Sales	33 000	39 600	72 600
Cost of sales	(20 625)	(24 750)	(45 375)
Gross profit	12 375	14 850	27 225
Other operating income	3 000	3 600	6 600
Rent income	3 000	3 600	6 600
Gross operating income	15 375	18 450	33 825
Operating expenses	(8 590)	(14 590)	(23 180)
Salaries	6 000	12 000	18 000
Depreciation	1 500	1 500	3 000
Discount allowed	65	65	130
Bad debts	200	200	400
Sundry expenses	825	825	1 650
Operating profit	6 785	3 860	10 645
Interest income: Interest on overdue debtors	33	33	66
Profit before interest expense	6 818	3 893	10 711
Interest expense: interest on loan	(595)	(425)	(1 020)
FORECAST PROFIT (LOSS)	6 223	3 468	9 691

Calculations:

1. Sales
November:
 $R360\,000 \div 12 = R30\,000$
 $R30\,000 + 10\% = R33\,000$
December:
 $R33\,000 + 20\% = R39\,600$
2. Cost of sales
November:
 $\frac{100}{160} \times 33\,000 = R20\,625$
December:
 $\frac{100}{160} \times 39\,600 = R24\,750$
3. Rent income
November: $R36\,000 \div 12 = R3\,000$
December: $R3\,000 + 20\% = R3\,600$
4. Bad debts
 $2\,400 \div 12 = R200$
5. Sundry expenses
 $R9\,000 + 10\% = R9\,900$
 $R9\,900 \div 12 = R825$
6. Interest on loan
November:
 $\frac{17}{100} \times 42\,000 \times \frac{1}{12} = R595$
December:
 $\frac{17}{100} \times 30\,000 \times \frac{1}{12} = R425$

Activity 13

Molefe Traders

PROJECTED INCOME STATEMENT FOR THE TWO MONTHS ENDED 30 APRIL 2019

	March 2019	April 2019	Total
Sales	127 500	187 500	315 000
Cost of sales	(76 500)	(112 500)	(189 000)
Gross profit	51 000	75 000	126 000
Other operating income	2 500	2 750	5 250
Rent income	2 500	2 750	5 250
Gross operating income	53 500	77 750	131 250
Operating expenses	40 862	43 103	83 965
Bad debts	400	400	800
Salaries	21 700	23 328	45 028
Wages	8 167	8 780	16 947
Repairs	385	385	770
Depreciation	3 550	3 550	7 100
Other expenses	6 660	6 660	13 320
Operating profit	12 638	34 647	47 285
Interest income	675	675	1 350
Profit before interest expense	13 313	35 322	48 635
Interest expense	(1 500)	(1 500)	(3 000)
FORECAST PROFIT (LOSS)	11 813	33 822	45 635

Calculations:

- Sales

March:
 $R1\ 800\ 000 \div 12 = R150\ 000$
 $R150\ 000 - 15\% = R127\ 500$

April:
 $R150\ 000 + 25\% = R187\ 500$
- Cost of sales

March:
 $\frac{60}{100} \times 127\ 500 = R76\ 500$

April:
 $\frac{60}{100} \times 187\ 500 = R112\ 500$
- Rent income

March:
 $R30\ 000 \div 12 = R2\ 500$

April:
 $R2\ 500 + 10\% = R2\ 750$
- Bad debts

March and April:
 $R4\ 800 \div 12 = R400$

5. Salaries
 March: $R260\,400 \div 12 = R21\,700$
 April: $R21\,700 + 7,5\% = R23\,328$
6. Wages
 March: $R98\,000 \div 12 = R8\,167$
 April: $R8\,167 + 7,5\% = R8\,780$
7. Repairs
 March and April:
 $R4\,200 \div 12 = R350$
 $R350 + 10\% = R385$
8. Depreciation
 March and April: $R42\,600 \div 12 = R3\,550$
9. Other expenses
 March and April:
 $R66\,600 \div 12 = R5\,550$
 $R5\,550 + 20\% = R6\,660$
10. Interest on fixed deposit
 March and April: $R8\,100 \div 12 = R675$
11. Interest on loan
 Loan amount:

$$\frac{18}{100} \times \frac{x}{1} = R22\,680$$

$$x = R126\,000$$

$$R126\,000 - R26\,000 \text{ (repayment)} = R100\,000$$
 March and April:

$$\frac{18}{100} \times 100\,000 \times \frac{1}{12} = R1\,500$$