 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY**

**ACTIVITIES AND WORKSHEETS**

|  |  |  |  |  |  |  |  |  |  |  |
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| **SUBJECT** | ACCOUNTING | | **GRADE** | | 11 | **DATE** |  | | | |
| **TOPIC** | Cash budgets | | | | | | **Term** | 3 | **Week** | 5 |
| **TIME ALLOCATION** | | 2 Weeks | | |  |  | | --- | --- | | **TIPS TO KEEP HEALTHY** | | |  |  | | 1. | **WASH YOUR HANDS** thoroughly with soap and water for at least 20 seconds. Alternatively, use hand sanitizer with an alcohol content of at least 60%. | |  |  | | 2. | **PRACTICE SOCIAL DISTANCING** – keep a distance of 1m away from other people. | |  |  | | 3. | **PRACTISE GOOD RESPIRATORY HYGIENE**: cough or sneeze into your elbow or tissue and dispose of the tissue immediately after use. | |  |  | | 4. | **WEAR A MASK AND TRY NOT TO TOUCH YOUR FACE.** The virus can be transferred from your hands to your nose, mouth and eyes. It can then enter your body and make you sick. | |  |  | | 5. | **STAY AT HOME.** | | | | | | | |
| **INSTRUCTIONS** | See requirements per activity | | |
| **RESOURCES** | **TEXTBOOK(S) & NOTES** | | | | | | | | | |

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| **BUDGETING** | | |
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| The process of estimating future results is known as forecasting/budgeting. Forecasting allows individuals/businesses to financially quantify their objectives and take remedial action when actual results differ from those budgeted for. | | |
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| Internal factors that need to be considered, amongst others, include: | | |
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|  | * Sale of merchandise for cash and credit * Purchase of merchandise for cash and credit * Debtors collection and creditors payment policy * Collection of other forms of income * Purchase of fixed assets * Replacement of old fixed assets * Sources of finances | |
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|  | **CASH BUDGET** | |
|  | A cash budget is an estimation of expected cash inflows (receipts) and outflows (payments) for a business or individual for a specific period of time in the future. | |
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|  | The purposes of a cash budget is to show: | |
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|  | * The actual cash which will be received. * The actual cash which will be paid in each month for the next accounting period and * How much money will be left at the end of each month. The owner will then be able to plan a future investment in financial assets or in new business ventures. * It is a very good means of internal control. A budget is a seriously considered plan of receipts and payments for the following year. When each month of that year is past, the ACTUAL receipts and payments must be checked against the PROJECTED receipts and payments to ensure the plan is being kept to. | |
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| **Format of a cash budget:** | | |
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| |  |  |  |  | | --- | --- | --- | --- | | **RECEIPTS** | **October** | **November** | **December** | | Cash sales | 85 000 | 115 000 | 145 000 | | Rent Income | 5 000 | 5 000 | 5 000 | | Total receipts (1) | **90 000** | **120 000** | **150 000** | | **PAYMENTS** |  |  |  | | Cash Purchases | 64 500 | 179 500 | 76 500 | | Drawings | 2 000 | 10 000 | - | | Operating expenses | 3 500 | 5 500 | 3 500 | | Total Payments (2) | **(70 000)** | **(195 000)** | **(80 000)** | | Cash surplus/deficit (3) | **20 000** | **(75 000)** | **70 000** | | Balance in bank at the beginning of the month | **45 000** | **60 000** | **(15 000)** | | Balance in bank at end of the month | **60 000** | **(15 000)** | **55 000** | | | |
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| 1. | RECEIPTS | |
|  | Receipts will include actual cash to be received not amount earned. The expected amount is shown as positive as this is an INFLOW of cash | |
|  |  | |
| 2. | PAYMENTS | |
|  | Payments will include actual payments to be made not items to be paid beyond budget period. The expected payments are shown as negative amounts as this indicates an OUTFLOW of cash | |
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| 3. | DIFFERENCE between RECEIPTS and PAYMENTS | |
|  | The total receipts minus total payments will show surplus or shortfall of cash for the month. When receipts are more than payments the difference will be a surplus. | |
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| **Preparation of a cash budget for a business only trading for cash.** | | |
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| **ACTIVITY 1** | | |
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| The following was extracted from the Accounting records of QZX Stores. | | |
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| **REQUIRED:** | | |
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| Prepare the Cash budget for the months April 2020 and May 2020. | | |
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| **INFORMATION:** | | |
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| 1. | The bank account closed off with R48 000 (favourable) on 31 March 2020. | |
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| 2. | Actual and budgeted figures. | |
|  | |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | **Actual** | | **Budgeted** | | |  | **February** | **March** | **April** | **May** | | Cash purchase of merchandise | 120 000 | 142 500 | 270 000 | 375 000 | | Cash sale of merchandise | 192 000 | 228 000 | 432 000 | 600 000 | | Salaries | 50 250 | 50 520 | 50 250 | ? | | Packing materials for cash | 5 400 | 6 150 | 12 150 | ? | | Operating expenses | 13 350 | 15 900 | 50 550 | 58 500 | | Advertising | 3 840 | 4 560 | ? | ? | | Depreciation | 1 000 | 1 000 | 1 200 | 1 200 | | |
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| 3. | **Additional information:** | |
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|  | a. | Salaries will increase by 10% in May 2020. |
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|  | b. | Packing materials in respect of May 2020 is 3% of the cash sales for  May 2020. |
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|  | c. | The owner plans to increase his capital, with cash, by R195 000 in April 2020. |
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|  | d. | In April 2020 a vehicle will be sold for R32 250. A post - dated cheque dated 15 May 2020 will be received in payment. |
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|  | e. | A fixed deposit of R30 000 was made on 1 June 2019 and the first amount for the interest [rate 12%] will be received on 31 May 2020. |
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|  | f. | The purchase of equipment to the value of R60 000 is planned for  April 2020 and will be paid in full in April 2020. |
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|  | g. | QZX Stores will let unused section of the building to a tenant on  1 May 2020. The rental will be R9 600 per month. |

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| **ACTIVITY 1 ANSWER SHEET** | | |
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| **QZX STORES** | | |
| **CASH BUDGET FOR THE MONTHS APRIL 2020 AND MAY 2020.** | | |
| |  |  |  | | --- | --- | --- | | **RECEIPTS** | **APRIL** | **MAY** | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | | **Total Receipts** |  |  | | **PAYMENTS** |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | | **Bank at beginning of month** |  |  | | **Bank at end of the month** |  |  | | | |
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| **ACTIVITY 2** | |
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| The following information was extracted from the Accounting records of Kuyasa Stores. All sales and purchases are for cash only. | |
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| **REQUIRED:** | |
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| Prepare the Cash Budget for the 3-month period 1 April 2020 to 30 June 2020. | |
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| **INFORMATION:** | |
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| |  |  | | --- | --- | |  | **MARCH 2020** | | Cash sales | 540 000 | | Rent income | 30 000 | | Salaries | 112 000 | | Advertising | 4 000 | | Depreciation | 15 000 | | Cash purchase of stock | 360 000 | | Loss on sale of asset | 25 600 | | Bond repayment | 29 600 | | Sundry other cash expenses | 40 000 | | Drawings | 8 000 | | |
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| **Additional information:** | |
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| 1. | Goods are sold for cash at a mark-up of 50% on cost and this will be maintained during the budget period. |
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| 2. | Trading stock sold each month is replenished in the same month. |
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| 3. | Depreciation is expected to be constant every month. |
|  |  |
| 4. | Sales are expected to remain the same in April but increase by 10% in  May 2020. Thereafter, an increase of 5% per month is expected. |
|  |  |
| 5. | A 15% increase in salaries takes effect on 1 May each year. |
|  |  |
| 6. | The owner will increase his drawings (cash) by 20% from June onwards. |
|  |  |
| 7. | Sundry other cash expenses are expected to increase by 5% per month. |
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| 8. | The owner plans to increase the monthly bond repayment by R3 000 with effect from 1 May 2020. |
|  |  |
| 9. | Kuyasa Stores will buy new equipment for R30 000 cash 20 May 2020. |
|  |  |
| 10. | Kuyasa Stores had a unfavourable bank balance of R13 600 on 31 March 2020. |
| **ACTIVITY 2 ANSWER SHEET** | |
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| **KUYASA STORES** | |
| **CASH BUDGET FOR THE 3-MONTH PERIOD 1 APRIL 2020 TO MAY 2020.** | |
| |  |  |  |  | | --- | --- | --- | --- | | **RECEIPTS** | **APRIL** | **MAY** | **JUNE** | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | | **Total Receipts** |  |  |  | | **PAYMENTS** |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  | | **Total payments** |  |  |  | | **CASH SURPLUS/DEFICIT** |  |  |  | | **Bank at beginning of month** |  |  |  | | **Bank at end of the month** |  |  |  | | |
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| **DEBTORS COLLECTIONS (Credit sales)** | |
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| Many businesses adopt a ‘cash only’ policy. However, some businesses do offer credit facilities to the public. The tricky part in selling on credit is that not all debtors pay promptly and although the goods have been sold and the profit has been accounted for, the cash only comes in later. Then the trader will need to decide on the credit terms to be allowed, e.g. 30 days, 60 days, 90 days, etc. What is important is that the customer must be made aware of the credit terms such: | |
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| * If the customer pays before a stipulated date, he/she may be entitled to a discount. * If an account becomes overdue, he/she may be charged interest | |
|  |  |
| A clear distinction will have to be made between the month of the transaction and the date of payment. E.g. 90 days credit would mean that payment for a purchase made in January would only be received in April. The April Cash Budget will reflect the expected payment. | |
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| A separate schedule called the DEBTORS COLLECTION SCHEDULE is drawn up to record the expected collections from debtors. The total cash collections for the budget period are carried through to the cash budget. | |
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| **EXAMPLE:** | |
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| **REQUIRED:** | |
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| 1. | Calculate the expected cash sales for the budget period of Noma Stores. |
| 2. | Calculate the expected credit sales for the budget period May – July. |
| 3. | Draw up a Debtors Collection Schedule. |
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| **INFORMATION:** | |
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| * Customers are allowed 30 days credit. * No discounts for early settlement. * Expected total sales are shown below: | |
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|  | |  |  |  |  | | --- | --- | --- | --- | | **April** | **May** | **June** | **July** | | R100 000 | R162 000 | R174 000 | R200 000 | |
|  |  |
| * 65% of total sales are on credit. | |
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| **SOLUTION:** | |
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| |  |  |  |  | | --- | --- | --- | --- | | **1 & 2** | **May** | **June** | **July** | | **Total sales** | 162 000 | 174 000 | 200 000 | | **Expected cash sales** | 56 700 | 60 900 | 70 000 | | **Expected credit sales** | 105 300 | 113 100 | 130 000 | | |
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| **3** |  |
| **DEBTORS COLLECTION SCHEDULE FOR THE PERIOD MAY – JULY 2020** | |
| |  |  |  |  | | --- | --- | --- | --- | |  | **May** | **June** | **July** | | Collection from debtors | 65 000 | 105 300 | 113 100 | | |
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| This is how the DEBTORS COLLECTIONS will be done: | |
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| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Month** | **Credit Sales** | **Collection from debtors** | | | | **May** | **June** | **July** | | April | R65 000 | 65 000 |  |  | | May | R105 300 |  | 105 300 |  | | June | R113 100 |  |  | 113 100 | | July | R130 000 |  |  |  | | |
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| **NOTE:**  Collection from the credit sales in July will only be after 30 days i.e. August, which falls outside the budget period. | |
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| **ACTIVITY 3** | |
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| The following details were taken from the Accounting records of EC Traders. | |
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| **REQUIRED:** | |
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| Use the information to prepare the debtors’ collection schedule for the period  April 2020 – June 2020. | |
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| **INFORMATION:** | |
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| 1 | Total sales |
|  | |  |  |  | | --- | --- | --- | | **Month** | **Actual** | **Budgeted** | | February | 270 000 |  | | March | 294 000 |  | | April |  | 306 000 | | May |  | 285 000 | | June |  | 390 000 | |
|  |  |
| 2. | 60% of all sales were credit sales. |
|  |  |
| 3. | Average debtors’ collection are as follows: |
|  |  |
|  | * 25% are collected during the transaction month. Debtors are granted 3% discount for payment made during the transaction month. * 60% are collected in the month after the transaction month. * 15% are collected in the second month after the transaction month. |
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| **ACTIVITY 3 ANSWER SHEET** | |
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| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | |  | **Credit sales** | **COLLECTION FROM DEBTORS** | | | | | | | **April 2020** | | **May 2020** | | **June 2020** | | | Calculation | Amount | Calculation | Amount | Calculation | Amount | | **FEBRUARY** |  |  |  |  |  |  |  | | **MARCH** |  |  |  |  |  |  |  | | **APRIL** |  |  |  |  |  |  |  | | **MAY** |  |  |  |  |  |  |  | | **JUNE** |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  | | |
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| **ACTIVITY 4** | | | |
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| You have been provided with the following information from Watson Traders. | | | |
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| **REQUIRED:** | | | |
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| 4.1 | Identify TWO items that cannot be included in a Cash Budget from the list below. | | |
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|  |  | Drawings, Profit on sale of asset, Bad debts, Wages, Trading stock- deficit, Equipment, Discount received, Advertising, Depreciation |  |
|  |  | | |
| 4.2 | Prepare the Debtors’ Collection schedule f for the forecast period. | | |
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| 4.3 | The business is concerned that some debtors are paying too slowly. Suggest TWO ways to solve this problem. | | |
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| **INFORMATION:** | | | |
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| 1 | **Actual and budgeted figures** | | |
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|  | |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | **ACTUAL** | | **BUDGETED** | | | |  | **March** | **April** | **May** | **June** | **July** | | **Credit Sales** |  |  |  |  |  | | **Cash sales** |  |  |  |  |  | | **TOTAL SALES** | 810 000 | 900 000 | 870 000 | 750 000 | 690 000 | | | |
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| 2 | **Additional information** | | |
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|  | 40 % of all sales are on credit. | | |
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|  | The trade debtors are collected as follows: | | |
|  | * 30% in the month in which the transaction took place * 50% after 30 days * 18% after 60 days * The rest is written off as bad debt in the third month after the transaction month | | |
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| **ACTIVITY 4 ANSWER SHEET** | |
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| **4.1** | **Identify TWO items that cannot be included in a Cash Budget.** |
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| **4.2** | **DEBTORS’ COLLECTION SCHEDULE: 1 MAY TO 31 JULY** |
|  | |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Credit sales** | | **Collections** | | | | **May** | **June** | **July** | | **March** |  |  |  |  | | **April** |  |  |  |  | | **May** |  |  |  |  | | **June** |  |  |  |  | | **July** |  |  |  |  | |  |  |  |  |  | |
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| **4.3** | **The business is concerned that some debtors are paying too slowly. Suggest TWO ways to solve this problem** |
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| **CREDITORS PAYMENTS (Credit purchses)** | |
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| Stock purchases maybe for cash or credit. Cash purchases are simply recorded in the cash budget in the month of the purchase. Some businesses in order to improve the outflow of cash, may purchase merchandise on credit or because they do not have immediate cash to pay for stocks.  In determining the amount of stock to be purchased, the cost of sales figure for the current or future months is used. Cost of sales equals to total stock purchases for the month if fixed base stock is used. | |
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| Businesses can negotiate relevant payment terms with its creditors. These terms will be followed in making payments to creditors. The information will be presented in the form of a Creditors payment schedule. | |
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| **EXAMPLE:** | |
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| **REQUIRED:** | |
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| Use the information to calculate Creditors’ Payments Schedule for April and May | |
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| **INFORMATION:** | |
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| |  |  |  | | --- | --- | --- | | **MONTH** | **ACTUAL** | **BUDGETED** | | February | 90 000 |  | | March | 100 000 |  | | April |  | 220 000 | | May |  | 190 000 | | |
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|  | Note: Creditors are paid in full a month after purchase. |
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| **SOLUTION:** | |
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| **CREDITORS PAYMENT SCHEDULE** | |
| |  |  |  | | --- | --- | --- | |  | **APRIL** | **MAY** | | Payments to creditors | 100 000 | 220 000 | | |
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