
CASH BUDGET

THEORY BOOKLET

STATE EXAM & DEB

CASH BUDGET

THEORY

STATE EXAM

QUESTIONS

1. (i) What useful information is available to Houghton Ltd from the cash budget?
(ii) Explain what is meant by a master budget. (6)
2020

2. (i) What recommendations would you make to Irwin Ltd based on the budgets you have prepared? (5)
(ii) Outline the factors which Irwin Ltd should take into account when estimating future sales figures. (4)
2016

3. (i) What options does a business have when it has
(a) a cash surplus and
(b) a cash deficit? (4)
(ii) On the basis of the cash budget you have prepared what advice would you give the management of Retro Ltd? (4)
2015

4. (i) What useful information is available to Murray Ltd from the completed cash budget? (2)
(ii) Explain what is meant by a Capital budget.(2)
2013

5. What factors should be taken into account by Din Ltd in arriving at the expected sales of €3,600,000 for the six months of 2012? (6)
2012

6. What is an adverse variance? State why adverse variances may arise in direct material costs. (6)
2010

7. Prepare a note on the factors taken into account by Greene Ltd in arriving at the expected sales of 59,000 units for the six months of 2010. (6)
2009

8. Define 'cash budget' and describe two of its advantages. (8)
2007

SUGGESTED SOLUTIONS**2020**

(i) What useful information is available to Houghton Ltd from the cash budget?

1. In July and August the company has a maximum cash deficit of €110,920.
2. The company needs to arrange a bank overdraft of €110,920 or else take corrective action by leasing the equipment, saving €12,000, or extending the period of credit received from one month to two months.
3. The company could also try and get customers to buy more goods for cash rather than credit.
4. This shortfall is eliminated in September and October with a cash surplus at the end of October of €345,078.
5. This could be used to purchase new fixed assets increasing the productive capacity of the firm or purchase investments which increase investment income and profit.

(ii) Explain what is meant by a master budget.

A master budget

this is a summary of all the other budgets and provides an overview of the operations for the planned period.

For example

A manufacturing budget, a sales budget, a cash budget.

2016

(i) What recommendations would you make to Irwin Ltd based on the budgets you have prepared?

1. Reduce requirement for closing stock of finished goods, particularly in earlier months to reduce the costs of production.
2. Negotiate a lower price than the €4 per kg, from suppliers when buying raw materials and this will reduce cash expenditure.
3. Encourage debtors to pay earlier by offering discounts for early payment/reduce the period of credit allowed from 2 months to one month, which will increase receipts.

4. Postpone the purchase of equipment in July and instead lease the equipment. This will reduce the deficit in July by €12,000 (€60,000 - €48,000) and by the interest and loan repayments €1,400 thereafter.

(ii) **Outline the factors which Irwin Ltd should take into account when estimating future sales figures.**

1. Market research and trends/opinion of sales representatives may be a reliable indicator of potential sales.
2. What is the price to be charged for the product or service?
3. Is the level of competition in the market place intense or not?
4. Is the economy expected to grow over the coming months?

2015

(i) **What options does a business have when it has**

(a) a cash surplus and

(b) a cash deficit?

Cash Surplus

1. This money can be placed in short term investment opportunities in order to gain the most interest.
2. When the company predicts that it will have a cash surplus this allows it to arrange for short-term investment of surplus funds to gain maximum interest.
3. The surplus could be used to pay off any loans or purchase fixed assets

Cash Deficit

1. The business needs to arrange alternative sources of finance e.g. a bank overdraft to get them over the period of the deficit.
2. When the company predicts that it will experience cash deficits this enables management to arrange for alternative sources of finance, e.g. longer periods of credit or bank overdraft accommodation to cover such deficits

(ii) **On the basis of the cash budget you have prepared what advice would you give the management of Retro Ltd?**

There are serious cash shortages in both July and August.

1. Retro Ltd should change the credit terms for debtors to encourage more prompt payment for example 6% discount for cash payment in month of sale Hire equipment instead of buying it to reduce cash expenditure or
2. Delay the start date for repayment of loan/repay loan over longer period of time
3. Agree better credit terms with creditors Examine variable overheads to see if they can be
4. Reduced. Examine wage bill to see if it can be reduced

2013

(i) **What useful information is available to Murray Ltd from the completed cash budget?**

1. Murray Ltd will be able to see in which months there will be a deficit of cash which will enable it to make arrangements for a loan or over-draft.
2. It will see which months will have a surplus of cash and will be able to arrange short term investments. There was a surplus of cash in March and April. The trend of cash shortages is getting smaller- [normal for new business].
3. Overdraft facilities will be required each month up to a maximum of €135,800 in any month Closing cash shortage is €4,850

(ii) **Explain what is meant by a Capital budget.**

1. The Capital Budget deals with planned capital expenditure for example the purchase of a fixed asset and planned capital receipts for example the sale of a fixed asset.
2. Decisions regarding capital items are the responsibility of the Board of Directors.
3. Carrying out of the capital budget is the responsibility of the Financial Controller.

2012

What factors should be taken into account by Din Ltd in arriving at the expected sales of €3,600,000 for the six months of 2012?

Din Should take the following into account

1. Last year sales from other stores
2. Market research/ opinion of sales manager and sales representatives
3. Trends/ State of Economy
4. Price to be charged/Sales price
5. Competition

2010

What is an adverse variance?

1. An adverse variance is when actual costs exceed the budgeted costs.

State why adverse variances may arise in direct material costs.

1. Adverse variances may arise in direct material costs because of an increase in the price of materials or an increase in quantities used.

2009

Prepare a note on the factors taken into account by Greene Ltd in arriving at the expected Sales of 59,000 units for the six months of 2010.

Greene should take into account the following when arriving at the expected sales

1. Last year sales
2. Market research/Opinion of Sales manager and sales representatives
3. Trends/State of Economy
4. Price to be charged
5. Competition
6. Luxuries versus necessities

2007

Define 'cash budget' and describe two of its advantages.

A cash budget

This is a forecast or plan of cash inflow and cash outflow over a period

Advantages

1. Highlights whether enough cash will be available to meet future needs
2. Helps to give advance knowledge so that overdraft can be arranged if shortfall occurs
3. Helps to predict future surpluses so that short-term investment can be made

CASH BUDGET

THEORY

DUBLIN EXAMINIATION BOARD

QUESTIONS

1. Explain why it is important for businesses to prepare regular budgets. (6)
2019
2. Explain what is meant by 'Master Budget'. List the components of a Master Budget for a manufacturing firm. (4)
3. What is an adverse variance? State why adverse variances may arise in Direct Labour costs (4)
2018
4. Explain three reasons for preparing a flexible budget (6)
2015
5. Define 'cash budget' and describe two of its advantages. (8)
2012

SUGGESTED SOLUTIONS**2019**

Explain why it is important for businesses to prepare regular budgets (6) Any 3: (3 × 2)

1. budgeting is part of the planning process (1) - it is a financial road map for a business (1)
2. budgeting helps define areas of responsibility for staff / motivates staff to achieve targets (1) and improves communication and builds teamwork (1)
3. the resources of the organisation are used as efficiently as possible (1) and it can adapt quickly to changing circumstances (1)
4. budgeted figures can be compared with actual performance (1) - adverse variances can be investigated and action taken to ensure it does not happen again (1)

2018

Explain what is meant by 'Master Budget'. List the components of a Master Budget for a manufacturing firm.

Master Budget

A master budget is a summary of all the other budgets (1) and provides an overview of the operations of the company for the planned period (1)

Components of a Master Budget include the following Any 2: (2 × 1)

1. budgeted manufacturing account
2. budgeted trading account and profit and loss account
3. budget balance sheet

What is an adverse variance? State why adverse variances may arise in Direct Labour costs.

Adverse Variance

An adverse variance is where actual costs exceed the budgeted costs

Reasons why it may arise in Direct Labour costs

Any 1: (2)

1. Price variance (1) where the actual direct labour cost per hour is greater than the budgeted direct labour cost per hour (1)
2. Usage variance (1) where the actual number of direct labour hours used in production is greater than the budgeted hours (1)

2015

Explain three reasons for preparing a flexible budget. (6)

Any 3: (3 × 2)

1. To compare budgeted costs and actual costs at the same activity level
2. To show whether actual costs were exceeded or were less than budgeted costs (variances)
3. To compare like with like / to use as a bench-mark against which to measure actual costs
4. To adjust budgeted costs to the actual activity level
5. To help in controlling costs or to plan product levels

2012

Define 'cash budget' and describe two of its advantages. (8)

A Cash Budget is a forecast or plan (1) of cash inflow (1) and cash outflow (1) over a period of time (1)

Advantages

Any 2: (2 × 2)

1. Highlights whether enough cash will be available to meet future needs
2. Helps to give advance knowledge so that overdraft can be arranged if shortfall occurs
3. Helps to predict future surpluses so that short-term investments can be made