9. Cash Budgeting (80)

(a) Prepare a Cash Budget for the six months March to August, 2018. (58)

Cash Budget (for Nash Ltd) for March to August 2018

	March	April	May	June	July	Aug.
Receipts	€	€	€	€	€	€
Cash Sales receipts W1	81,700 (1)	83,600 (1)	108,300 (1)	112,100 (1)	118,750 (1)	119,700 (1)
Credit Sales receipts (1 month) W2	–	172,000 (1)	176,000 (1)	228,000 (1)	236,000 (1)	250,000 (1)
Credit Sales receipts (2 months) W3	–	–	172,000 (1)	176,000 (1)	228,000 (1)	236,000 (1)
Total	81,700	255,600	456,300	516,100	582,750	605,700
Payments						
Purchases (1 month) W4	–	88,200 (1)	102,900 (1)	122,500 (1)	127,400 (1)	161,700 (1)
Purchases (2 months) W5	–	–	90,000 (1)	105,000 (1)	125,000 (1)	130,000 (1)
Wages	50,000 (2)	50,000	50,000	50,000	50,000	50,000
Variable Overheads W6	43,000 (1)	44,000 (1)	57,000 (1)	59,000 (1)	62,500 (1)	63,000 (1)
Fixed Overheads W7	69,200 (6)	69,200	69,200	69,200	69,200	69,200
Equipment	48,000 (1)	–	–	–	–	–
Loan Instalments	–	2,000 (1)	2,000	2,000	2,000	2,000
Interest W8	200 (1)	190 (1)	180 (1)	170 (1)	160 (1)	150 (1)
Total	210,400	253,590	371,280	407,870	436,260	476,050
Net Cash	(128,700)(1)	•2,010 (1)	•85,020 (1)	•108,230 (1)	•146,490 (1)	•129,650 (1)
Bank Loan	40,000 (1)					
Opening Balance	–	(88,700)(1)	(86,690)	(1,670)	106,560	253,050
Closing Balance	(88,700)	(86,690)	(1,670)	106,560	253,050	••382,700 (4)

• Allow full marks for student's own figure if consistent with previous work.
•• Accept correct figure only.

(b) Prepare a budgeted Profit and Loss Account for the six months ending 30/08/2018. (14)

Budgeted Profit and Loss Account (for Nash Ltd)
for the six months ending 31/08/2018

		€	€
Sales			3,285,000 (1)
Less Cost of Sales			
Material / Purchases		1,600,000 (1)	
Labour	[6 × €50,000 per month]	300,000 (1)	
Variable Overheads W6		•328,500 (1)	
Fixed Overheads W7		•415,200 (1)	(2,643,700)
Gross Profit			641,300
Less Depreciation: Equipment W9		•4,800 (1)	
Discount Allowed■ W10		32,850 (2)	(37,650)
			603,650
Add Discount Received■ W11			12,300 (2)
			615,950
Less Loan Interest			(1,050)(2)
Profit			••614,900 (2)

• Allow full marks for student's own figure if consistent with previous work.
•• Accept correct figure only.
■ Allow 1m for correct words if figure incorrect or omitted.

9. Cash Budgeting (cont'd.)

Workings:

W1 Receipts: Cash Sales

		€
Mar.	[95% of 20% of €430,000]	81,700 (1)
Apr.	[95% of 20% of €440,000]	83,600 (1)
May	[95% of 20% of €570,000]	108,300 (1)
June	[95% of 20% of €590,000]	112,100 (1)
July	[95% of 20% of €625,000]	118,750 (1)
Aug.	[95% of 20% of €630,000]	119,700 (1)
		624,150

W2 Receipts: Credit Sales (1 month)

		€
Mar.		–
Apr.	[50% of 80% of €430,000]	172,000 (1)
May	[50% of 80% of €440,000]	176,000 (1)
June	[50% of 80% of €570,000]	228,000 (1)
July	[50% of 80% of €590,000]	236,000 (1)
Aug.	[50% of 80% of €625,000]	250,000 (1)

W3 Receipts: Credit Sales (2 months)

		€
Mar.		–
Apr.		–
May	[50% of 80% of €430,000]	172,000 (1)
June	[50% of 80% of €440,000]	176,000 (1)
July	[50% of 80% of €570,000]	228,000 (1)
Aug.	[50% of 80% of €590,000]	236,000 (1)

W4 Payments: Credit Purchases (1 month)

		€
Mar.		–
Apr.	[98% of 50% of €180,000]	88,200 (1)
May	[98% of 50% of €210,000]	102,900 (1)
June	[98% of 50% of €250,000]	122,500 (1)
July	[98% of 50% of €260,000]	127,400 (1)
Aug.	[98% of 50% of €330,000]	161,700 (1)
		602,700

W5 Payments: Credit Purchases (2 months)

		€
Mar.		–
Apr.		–
May	[50% of €180,000]	90,000 (1)
June	[50% of €210,000]	105,000 (1)
July	[50% of €250,000]	125,000 (1)
Aug.	[50% of €260,000]	130,000 (1)

W6 Variable Overheads

		€
Mar.	[430,000 ÷ €100 × €10]	43,000 (1)
Apr.	[440,000 ÷ €100 × €10]	44,000 (1)
May	[570,000 ÷ €100 × €10]	57,000 (1)
June	[590,000 ÷ €100 × €10]	59,000 (1)
July	[625,000 ÷ €100 × €10]	62,500 (1)
Aug.	[630,000 ÷ €100 × €10]	63,000 (1)
		328,500

W7 Fixed Overheads (incl. depreciation)

	€
Payments per month	70,000 (2)
– Depreciation [€48,000 ÷ 5 ÷ 12]	(800)(4)
Charge per month	69,200

W8 Interest

Payable on last day of month
on amount outstanding on that date:

		€
Mar.	[6% of €40,000 ÷ 12]	200 (1)
Apr.	[6% of €38,000 ÷ 12]	190 (1)
May	[6% of €36,000 ÷ 12]	180 (1)
June	[6% of €34,000 ÷ 12]	170 (1)
July	[6% of €32,000 ÷ 12]	160 (1)
Aug.	[6% of €30,000 ÷ 12]	150 (1)

W9 Depreciation: Equipment

	€
Charge per month [€48,000 ÷ 5 ÷ 12]	800
Total charge (Mar.-Aug.) [€800 × 6]	4,800 (1)
Figure transferred to Profit & Loss a/c	4,800

W10 Discount Allowed

		€
Mar.	[5% of 20% of €430,000]	4,300
Apr.	[5% of 20% of €440,000]	4,400
May	[5% of 20% of €570,000]	5,700
June	[5% of 20% of €590,000]	5,900
July	[5% of 20% of €625,000]	6,250
Aug.	[5% of 20% of €630,000]	6,300
Figure transferred to Profit & Loss a/c		32,850 (2)

or

Discount Allowed

	€
Sales (Mar.-Aug.)	3,285,000
Discount [5% of 20% of €3,285,000]	32,850
Figure transferred to Profit & Loss a/c	32,850 (2)

or

Discount Allowed

	€
Receipts: Cash Sales (Mar.-Aug.) **W1**	624,150
Discount [€624,150 ÷ 95 × 5]	32,850
Figure transferred to Profit & Loss a/c	32,850 (2)

W11 Discount Received

		€
Mar.		–
Apr.	[2% of 50% of €180,000]	1,800
May	[2% of 50% of €210,000]	2,100
June	[2% of 50% of €250,000]	2,500
July	[2% of 50% of €260,000]	2,600
Aug.	[2% of 50% of €330,000]	3,300
Figure transferred to Profit & Loss a/c		12,300 (2)

or

Discount Received

	€
Purchases (Mar.-July.) [€1,600,000 – €370,000]	1,230,000
Discount [2% of 50% of €1,230,000]	12,300
Figure transferred to Profit & Loss a/c	12,300 (2)

or

Discount Received

	€
Payments: Credit Purchases (1 month) **W4**	602,700
Discount [€602,700 ÷ 98 × 2]	12,300
Figure transferred to Profit & Loss a/c	12,300 (2)

9. Cash Budgeting (cont'd.)

(c) (i) Explain what is meant by 'Master Budget'. List the components of a Master Budget for a manufacturing firm. (4)

❶ Master Budget **(2)**

– a summary of all the other budgets (1) and provides an overview of the operations of the company for the planned period (1)

❷ Components of a Master Budget

Any 2: **(2 × 1)**

– budgeted manufacturing account //
– budgeted trading account and profit and loss account //
– budgeted balance sheet

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.

(ii) What is an adverse variance? State why adverse variances may arise in Direct Labour costs. (4)

❶ Adverse variance **(2)**

– an adverse variance is where actual costs exceed the budgeted costs

❷ Reasons why it may arise in Direct Labour costs

Any 1: **(2)**

– price variance (1) where the actual direct labour cost per hour is greater than the budgeted direct labour cost per hour (1) //
– usage variance (1) where the actual number of direct labour hours used in production is greater than the budgeted hours (1)

** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
** Accept other appropriate material.