

9. Cash Budgeting (cont'd.)

- (b) Prepare a Raw Materials Purchase Budget (in units and €) for the four months July to October 2019. (13)

Raw Materials Budget (for Poole Ltd) for July to October 2019

	July	Aug.	Sept.	Oct.	Nov.
Production (units)	•18,550 (½)	•11,850 (½)	•12,350 (½)	•12,850 (½)	13,350
Materials per Unit (kg)	× ••4 (½)	× 4	× 4	× 4	
Required for Production (kg)	74,200 (½)	47,400 (½)	49,400 (½)	51,400 (½)	
+ Closing Stock (kg)	•14,220 (½)	•14,820 (½)	•15,420 (½)	•16,020 (½)	
	88,420	62,220	64,820	67,420	
- Opening Stock (kg)	—	•(14,220)(½)	•(14,820)(½)	•(15,420)(½)	
Required for Purchases (kg)	•88,420 (½)	•48,000 (½)	•50,000 (½)	•52,000 (½)	
Unit Price (€ per kg)	× ••3.50 (½)	× 3.50	× 3.50	× 3.50	
Materials Purchases (€)	•309,470 (½)	•168,000 (½)	•175,000 (½)	•182,000 (1)	

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

- (c) Prepare a Cash Budget for the four months July to October 2019. (37)

Cash Budget (for Poole Ltd) for July to October 2019

	July €	Aug. €	Sept. €	Oct. €
Receipts				
Cash Sales receipts W1	75,810 (1)	83,030 (1)	86,640 (1)	90,250 (1)
Credit Sales receipts (1 month) W2	—	159,600 (1)	174,800 (1)	182,400 (1)
Credit Sales receipts (2 months) W3	—	—	159,600 (1)	174,800 (1)
Total	<u>75,810</u>	<u>242,630</u>	<u>421,040</u>	<u>447,450</u>
Payments				
Purchases	—	•309,470 (1)	•168,000 (1)	•175,000 (1)
Wages W5	31,950 (1)	33,850 (1)	34,800 (1)	35,750 (1)
Variable Overheads W6	•55,650 (1)	•35,550 (1)	•37,050 (1)	•38,550 (1)
Fixed Overheads W7	25,500 (2)	25,500	25,500	25,500
Equipment	48,000 (1)	—	—	—
Loan Repayments W9	—	1,400 (1)	1,400	1,400
Interest W10	210 (1)	•203 (1)	•196 (1)	•189 (1)
Total	<u>161,310</u>	<u>405,973</u>	<u>266,946</u>	<u>276,389</u>
Net Monthly Cash Flow	(85,500)(1)	(163,343)(1)	154,094 (1)	171,061 (1)
Bank Loan - Financing	42,000 (1)	—	—	—
Opening balance	—	•(43,500)(1)	•(206,843)(1)	•(52,749)(1)
Closing balance	<u>(43,500)</u>	<u>(206,843)</u>	<u>(52,749)</u>	<u>•118,312 (1)</u>

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

9. Cash Budgeting (cont'd.)

- (d) Prepare a budgeted Trading and Profit and Loss Account for the four months ending 31/10/2019 (if the budgeted cost of a unit of finished goods is €16). (13)

Budgeted Trading, Profit and Loss Account (for Poole Ltd)
for the four months ending 31/10/2019

	€	€	
Sales [€399,000 + €437,000 + €456,000 + €475,000]		1,767,000	(1)
<i>Less</i> Cost of Sales			
Opening Stocks	—		
Purchases [€309,470 + €168,000 + €175,000 + €182,000]	• 834,470		(1)
		<u>834,470</u>	
<i>Less</i> Closing Stocks			
Finished Goods [•9,100 × €16]	• 145,600		(1)
Raw Materials [•16,020 × €3.50]	• 56,070	(201,670)	(632,800)
Gross Profit		<u>1,134,200</u>	
<i>Less</i> Expenses			
Discount Allowed W4	17,670		(2)
Wages W5	• 136,350		(1)
Variable Overheads W6	• 166,800		(1)
Fixed Overheads W7	• 102,000		(1)
Depreciation: Equipment W8	<u>2,000</u>	(424,820)	
Operating Profit		<u>709,380</u>	
<i>Less</i> Interest W10		(798)	(1)
Net Profit		<u>• 708,582</u>	(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.

Workings:

	€		€
W1 Receipts: Cash Sales		W4 Discount Allowed	
July [95% of 20% of €399,000]	75,810 (1)	July [5% of 20% of €399,000]	3,990
Aug. [95% of 20% of €437,000]	83,030 (1)	Aug. [5% of 20% of €437,000]	4,370
Sept. [95% of 20% of €456,000]	86,640 (1)	Sept. [5% of 20% of €456,000]	4,560
Oct. [95% of 20% of €475,000]	<u>90,250 (1)</u>	Oct. [5% of 20% of €475,000]	<u>4,750</u>
Figure transferred Cash Budget	335,730	Figure transferred to Profit & Loss a/c	17,670 (2)
W2 Receipts: Credit Sales (1 month)		<i>or</i>	
July	—	Discount Allowed	
Aug. [50% of 80% of €399,000]	159,600 (1)	Sales (July-Oct.)	1,767,000
Sept. [50% of 80% of €437,000]	174,800 (1)	Discount [5% of 20% of €1,767,000]	<u>17,670</u>
Oct. [50% of 80% of €456,000]	<u>182,400 (1)</u>	Figure transferred to Profit & Loss a/c	<u>17,670 (2)</u>
Figure transferred Cash Budget	516,800		
		<i>or</i>	
W3 Receipts: Credit Sales (2 months)		Discount Allowed	
July	—	Cash Sales Receipts (July-Oct.) W1	335,730
Aug.	—	Discount [€335,730 ÷ 95 × 5]	<u>17,670</u>
Sept. [50% of 80% of €399,000]	159,600 (1)	Figure transferred to Profit & Loss a/c	<u>17,670 (2)</u>
Oct. [50% of 80% of €437,000]	<u>174,800 (1)</u>		
Figure transferred Cash Budget	334,400		

9. Cash Budgeting (cont'd.)

Workings: (cont'd.)		€	€
W5	Wages (Costs + 5% of sales revenue)		
	July [€12,000 + 5% of €399,000]	31,950 (1)	
	Aug. [€12,000 + 5% of €437,000]	33,850 (1)	
	Sept. [€12,000 + 5% of €456,000]	34,800 (1)	
	Oct. [€12,000 + 5% of €475,000]	35,750 (1)	
	Figure transferred Cash Budget	136,350	
	Figure transferred to Profit & Loss a/c	136,350 (1)	
W6	Variable Overheads		
	July [\bullet 18,550 \times €3.00]	55,650 (1)	
	Aug. [\bullet 11,850 \times €3.00]	35,550 (1)	
	Sept. [\bullet 12,350 \times €3.00]	37,050 (1)	
	Oct. [\bullet 12,850 \times €3.00]	38,550 (1)	
	Figure transferred Cash Budget	166,800	
	Figure transferred to Profit & Loss a/c	166,800 (1)	
W7	Fixed Overheads (incl. depreciation)		
	Payments per month	26,000	
	– Depreciation [€48,000 \div (8 \times 12)]	(500)	
	Charge per month	25,500 (2)	
	Total charge (July-Oct.)	\times 4	
	Figure transferred to Profit & Loss a/c	102,000 (1)	
W8	Depreciation: Equipment		
	Charge per month [€48,000 \div (8 \times 12)]	500	
	Total charge (July-Oct.) [€500 \times 4]	2,000 (1)	
	Figure transferred to Profit & Loss a/c	2,000	
W9	Loan Repayments		
	July	–	
	Aug. [\bullet 42,000 \div (2.5 \times 12)]	1,400 (1)	
	Sept. [\bullet 42,000 \div (2.5 \times 12)]	1,400	
	Oct. [\bullet 42,000 \div (2.5 \times 12)]	1,400	
W10	Interest		
	Payable on last day of month on amount outstanding on that date:		
	July [6% of €42,000 \div 12]	210 (1)	
	Aug. [6% of €40,600 \div 12]	203 (1)	
	Sept. [6% of €39,200 \div 12]	196 (1)	
	Oct. [6% of €37,800 \div 12]	189 (1)	
	Figure transferred Cash Budget	798	
	Figure transferred to Profit & Loss a/c	798 (1)	

(e) Explain why it is important for businesses to prepare regular budgets. (6)

Any 3: (3 \times 2)

- budgeting is part of the planning process (1) - it is a financial road map for a business (1) //
- budgeting helps define areas of responsibility for staff / motivates staff to achieve targets (1) and improves communication and builds teamwork (1) //
- the resources of the organisation are used as efficiently as possible (1) and it can adapt quickly to changing circumstances (1) //
- 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)

** Figures in brackets show the breakdown of marks if answer incomplete.

** Accept student's own wording if equivalent meaning conveyed.

** Accept other appropriate material.