

## QUESTION 54

[Memo p168; Ex Bk p81]

### Cash Budget, Debtors Collection Schedule, Theory (70 marks; 45 minutes)

You are provided with information in respect of Dunbar Furnishers.

#### REQUIRED:

- 54.1 Prepare the Debtors Collection Schedule and the Creditors Payment Schedule for the period November 20.8 to January 20.9. All calculations must be to the nearest Rand. (19)
- 54.2 Complete the Cash Budget for the forecast period. Some of the figures are provided for you. All calculations must be to the nearest Rand. (47)
- 54.3 In your opinion was it wise to reduce the mark-up from 125% to 75%? Quote figures or calculations to support your answer. (4)

#### INFORMATION:

- A. The business currently uses a mark-up of 125% (i.e. their prices are more than double the cost prices). They plan to reduce this to 75% from 1 November 20.8.
- B. Extracts from the ledger for the past year ended 31 October 20.8:

Trading stock	R205 000
Equipment	60 000
Land & buildings	450 000
Bank	18 000

- C. Cash sales comprise 60% of all sales. Actual and budgeted sales are:

	Actual	Budgeted
September 20.8	247 500	
October 20.8	225 000	
November 20.8		262 500
December 20.8		297 500
January 20.9		332 500

- D. Debtors are expected to settle their accounts as follows:
- 55% in the month following the sales transaction month (i.e. within 30 days). These debtors are entitled to 4% cash discount for prompt settlement.
  - 35% in the second month following the sales transaction month (i.e. within 60 days).
  - 10% will be written off as bad debts.
- E. Purchase of trading stock:
- Trading stock is kept at a constant level. (Goods are replaced in the month in which they are sold).
  - All purchases of merchandise are on credit. Payment is made in the month following the purchase and a settlement discount of 5% is received.
- F. The fixed deposit matures on 31 December 20.8. R40 000 was originally invested on 1 January 20.8. Interest is 10% p.a. and will be included in the final proceeds.

G. During October the business employed the following:

- Four shop assistants at R4 000 per month.
- Two managers / bookkeepers at R6 200 per month.

One of the shop assistants has resigned with effect from 1 December. She will not be replaced but because the other shop assistants will be taking on increased loads they will receive an increase of 20%. The managers / bookkeepers will receive increases of R400 per month each with effect from 1 January 20.9.

H. The owner usually takes drawings of R10 000 per month comprising cash (R7 000) and trading stock (R3 000).

I. The business will be purchasing a delivery vehicle on 15 November 20.8. The cost is R202 500. A 20% deposit will be paid on this date. The balance will be paid in equal monthly instalments over 36 months commencing on 15 December.

J. The insurance premium is paid monthly and is currently R3 300 per month. As there have been no claims in the past five years the insurance company will reduce the premium by 10% with effect from 1 January 20.9.

K. Advertising is budgeted at 2% of expected sales each month. Advertising is paid monthly.

L. Depreciation on equipment is R500 per month while depreciation on the new vehicle will be R3 375 for each complete month.

M. Operating expenses for October are R7 400. They are expected to increase by R700 each and every month. These are paid monthly.

**QUESTION 54**      *[Study Guide p81; Memo p168]*  
**Cash Budget, Debtors Collection Schedule, Theory**  
**(70 marks; 45 minutes)**

**54.1 DUNBAR FURNISHERS**

**DEBTORS COLLECTION SCHEDULE FOR NOVEMBER 20.8 TO JANUARY 20.9 (10)**

Month	Credit sales	COLLECTIONS:		
		Nov 20.8	Dec 20.8	Jan 20.9
September	99 000	34 650		
October	90 000	47 520		
November	105 000			
December				
January				
		82 170		

**CREDITORS PAYMENT SCHEDULE FOR NOVEMBER 20.8 TO JANUARY 20.9 (9)**

	Oct 20.8	Nov 20.8	Dec 20.8	Jan 20.9
<b>Sales</b>	225 000	262 500	297 500	332 500
<b>Cost of sales</b>				
<b>Payments</b>	104 500			

**54.2 CASH BUDGET FOR NOVEMBER 20.8 TO JANUARY 20.9**

**(47)**

<b>CASH RECEIPTS</b>	<b>November</b>	<b>December</b>	<b>January</b>
Cash sales	157 500		
Receipts from debtors	82 170		
<b>TOTAL RECEIPTS</b>			
<b>CASH PAYMENTS</b>			
Payments to creditors			
Salaries & wages	28 400		
Drawings			
Purchase of vehicle			
Insurance	3 300		
Advertising	5 250		
Operating expenses	8 100		
<b>TOTAL PAYMENTS</b>			
<b>SURPLUS/ (DEFICIT)</b>			
<b>BANK AT BEGINNING</b>	18 000		
<b>BANK AT END</b>			

<b>54.3</b>	<b>In your opinion was it wise to reduce the mark-up from 125% to 75%? Quote figures or calculations to support your answer.</b>	<b>(4)</b>

## QUESTION 54

### Cash Budget, Debtors Collection Schedule, Theory (70 marks; 45 minutes)

#### 54.1 DUNBAR FURNISHERS

#### DEBTORS COLLECTION SCHEDULE FOR NOVEMBER 20.8 TO JANUARY 20.9

(10)

Month	Credit sales	COLLECTIONS:		
		Nov 20.8	Dec 20.8	Jan 20.9
September	99 000	34 650		
October	90 000	47 520	✓✓ ② 31 500	
November	105 000		✓✓ ③ 55 440	✓✓ ④ 36 750
December	① 119 000			✓✓ ⑤ 62 832
January				
		<b>82 170</b>	<input checked="" type="checkbox"/> 86 940	<input checked="" type="checkbox"/> 99 582

- ①  $297\ 500 \times 40\% = R119\ 000$
- ②  $90\ 000 \times 35\% = R31\ 500$
- ③  $[(105\ 000 \times 55\%) \times 96\%] = R55\ 440$
- ④  $105\ 000 \times 35\% = R36\ 750$
- ⑤  $[(119\ 000 \times 55\%) \times 96\%] = R62\ 832$

#### CREDITORS PAYMENT SCHEDULE FOR NOVEMBER 20.8 TO JANUARY 20.9

(9)

	Oct 20.8	Nov 20.8	Dec 20.8	Jan 20.9
<b>Sales</b>	<b>225 000</b>	<b>262 500</b>	<b>297 500</b>	<b>332 500</b>
<b>Cost of sales</b> ①	100 000	✓ 150 000	✓ 170 000	✓ 190 000
<b>Payments</b>	<b>104 500</b>	✓✓ ② 95 000	✓ <input checked="" type="checkbox"/> ③ 142 500	✓ <input checked="" type="checkbox"/> ④ 161 500

- ① Cost of sales: Sales  $\times \frac{100}{225}$  for October; Sales  $\times \frac{100}{175}$  for the following months.
- ②  $100\ 000 \times 95\% = R95\ 000$
- ③  $150\ 000 \times 95\% = R142\ 500$
- ④  $170\ 000 \times 95\% = R161\ 500$

**54.2 CASH BUDGET FOR NOVEMBER 20.8 TO JANUARY 20.9**

(47)

<b>CASH RECEIPTS</b>	<b>November</b>	<b>December</b>	<b>January</b>
Cash sales	<b>157 500</b>	✓178 500	✓199 500
Receipts from debtors	<b>82 170</b>	✓86 940	✓99 582
Fixed deposit matured		✓✓(1)44 000	
<b>TOTAL RECEIPTS</b>	<b>✓239 670</b>	<b>✓309 440</b>	<b>✓299 082</b>
<b>CASH PAYMENTS</b>			
Payments to creditors	✓95 000	✓142 500	✓161 500
Salaries & wages	<b>28 400</b>	✓✓(3)26 800	✓✓(2)27 600
Drawings [only cash]	✓7 000	✓7 000	✓7 000
Purchase of vehicle (4)	✓✓40 500	✓✓4 500	✓4 500
Insurance	<b>3 300</b>	✓3 300	✓✓(5)2 970
Advertising	<b>5 250</b>	✓✓(6)5 950	✓✓(6)6 650
Operating expenses (7)	<b>8 100</b>	✓✓8 800	✓9 500
<b>TOTAL PAYMENTS</b>	<b>✓187 550</b>	<b>✓198 850</b>	<b>✓219 720</b>
<b>SURPLUS/ (DEFICIT)</b>	<b>✓52 120</b>	<b>✓114 990</b>	<b>✓79 362</b>
<b>BANK AT BEGINNING</b>	<b>18 000</b>	<b>✓70 120</b>	<b>✓185 110</b>
<b>BANK AT END</b>	<b>✓70 120</b>	<b>✓185 110</b>	<b>✓264 472</b>

①  $40\,000 + (40\,000 \times 10\%) = R44\,000$

②  $(3 \times 4\,800) + (2 \times 6\,200) = R26\,800$

③  $(3 \times 4\,800) + (2 \times 6\,600) = R27\,600$

④  $202\,500 \times 20\% = R40\,500$  deposit /  $(202\,500 - 40\,500) \div 36 = R4\,500$  per month

⑤  $3\,300 \times 90\% = R2\,970$

⑥ Dec:  $297\,500 \times 2\% = R5\,950$  / Jan:  $332\,500 \times 2\% = R6\,650$

⑦  $8\,100 + 700 = R8\,800$  /  $8\,800 + 700 = R9\,500$

<b>54.3</b>	<b>In your opinion was it wise to reduce the mark-up from 125% to 75%? Quote figures or calculations to support your answer.</b>	<b>(4)</b>
<p><i>Consider effect on sales ✓ Quote sales figures ✓✓✓</i>                  There was a positive effect on sales as they increased from R205 000 in October to R332 500 in January.</p> <p><b>OR</b></p> <p><i>Consider effect on gross profit ✓ Quote GP figures ✓✓✓</i>                  Due to the decreased mark-up % the GP did not increase by a similar rate as the sales, R125 000 in October to R132 500 in January.</p>		