

## B. SOCIETY

### 4. BUDGET INFORMATION

Julie is the owner of *Tasty Teas*, a business which manufactures speciality herbal teas. She is applying for a business loan. Julie has been asked by her bank manager to prepare a Cash Budget for the next year of business, showing how she plans to repay her bank loan. Julie completes the Cash Budget, but forgets to estimate the likely cost of paying her new administrative assistant their wages. Discuss the following with a partner:

- A. What are the consequences of this omission on Julie's Cash Budget?
- B. What effect might this have on the bank manager's decision?
- C. What should Julie do? Why?

## C. FINANCIAL SYSTEMS

### 5. PREPARATION OF A MONTHLY CASH BUDGET

Cheryl owns the business *Pots and Pitchers*, selling pottery to retail stores around Perth. She recently went to a talk presented by the Small Business Development Corporation on budgets. She has asked you to prepare a Cash Budget for her. She has supplied the following information:

Cash at bank as at 1 May 2008 is \$1 445.

Her estimates of the transactions for May:

Advertising	\$ 1 020
Drawings	680
Office expenses	2 040
Cost of goods sold	3 400
Cash Sales	10 200
Receipts from a/c receivable	1 700
Credit sales	3 400
Payment to a/c payable	6 120
Credit purchases	6 800

- A. Prepare a Cash Budget for May.

- B. Comment on Cheryl's cash position.
- C. What can Cheryl do if she wants to improve the situation?

## 6. PREPARATION OF A QUARTERLY CASH BUDGET

Vaughan estimates the following receipts and payments for July, August and September. As of 30 June 2009, the business *Vaughan Enterprises* has a bank balance of \$12 700.

	July (\$)	August (\$)	September (\$)
Estimated cash fees	21 050	21 050	22 900
Payments from accounts receivable	10 000	8 000	10 000
<b>Estimated expenses</b>			
Wages	2 040	2 040	2040
Advertising	544	544	544
Cleaning	300	300	300
Office expenses	5 525	5 525	5950
Payments to accounts payable	1 000	1 200	1 000
Drawings	6 000	6 000	6 000

- A. Prepare a cash budget for *Vaughan Enterprises* for the three months ending 30 September 2009.
- B. What is the bank balance as of 30 September 2009?
- C. Assume estimated fees increase by 10% each month and advertising increase by 20% each month. Prepare a new cash budget for the quarter.

## 7. CORRECTING ERRORS IN A CASH BUDGET

Below is the estimated quarterly budget for *Patty's Party Accessories*.

	OCT (\$)	NOV (\$)	DEC (\$)
<b>Estimated receipts</b>			
Cash fees	50 000	50 000	55 000
<b>Less estimated payments</b>			



	OCT (\$)	NOV (\$)	DEC (\$)
Cost of sales	6 000	6 000	6 000
Insurance	500	500	500
Wages	6 500	6 500	6 500
Electricity	100	100	100
Telephone	200	200	200
Postage	250	250	250
Drawings	<u>2 500</u>	<u>2 500</u>	<u>2 500</u>
Total payments	<u>16 050</u>	<u>16 050</u>	<u>16 050</u>
Estimated surplus for month	33 950	33 950	38 950
Bank balance start of month	<u>200 000</u>	<u>233 950</u>	<u>267 900</u>
Estimated bank balance end of month	<u>23 950</u>	<u>267 900</u>	<u>306 850</u>

Patty's accountant has discovered the following errors in the estimated budget.

- The cost of sales is \$15 000 for October, November and December.
- The insurance is \$800 for October, November and December.
- Drawings are \$8 500 for October, November and December.
- The cash fees for October was \$25 000.
- The cash fees for November was \$35 000.
- The cash fees for December was \$45 000.
- The wages for October, November and December were \$12 000.

- Correct the errors in the budget.
- Rewrite the budget for October, November and December.
- Explain any impact the errors had on the estimated budget.

## D. ANALYSIS

### 8. INVESTIGATING BUDGET VARIANCES

Tim prepared a cash budget for the first time last month. His budget estimated that he would have a cash balance of \$6 000 at the end of the month. However, his bank statement shows he has a bank overdraft of \$3 660. Tim would like you to assist him with comparing the estimated budget below, with the actual cash flows.

	BUDGET \$	ACTUAL \$
<b>Receipts</b>		
Cash fees	36 000	39 000
Collections from accounts receivable	<u>18 000</u>	<u>18 000</u>
<b>Total receipts</b>	<b><u>54 000</u></b>	<b><u>46 2000</u></b>
<b>Payments</b>		
Wages	15 600	7 800
Rent	7 200	7 200
Payments to accounts payable	19 800	20 400
Advertising	3 300	1 200
Car expenses	1 200	1 260
Office expenses	1 800	2 100
Purchase of photocopier	—	9 000
Drawings	<u>3 600</u>	<u>5 400</u>
<b>Total payments</b>	<b><u>52 500</u></b>	<b><u>54 360</u></b>
Excess receipts over payments	500	(8 160)
Bank balance as at 30 June 2009	<u>4 500</u>	<u>4 500</u>
Bank balance as at 31 July 2009	<u>5 000</u>	<u>(3 660)</u>

- A. Prepare a budget variance report which shows the variances in both dollar amounts and percentages for Tim.
- B. Explain to Tim why the projected cash figure was not achieved (include both the negative and the positive reasons).

## 9. CASH FLOW CONCERNS

Slawko owns a courier service that delivers flowers and other fragile items throughout the suburbs of Perth. She estimates the following receipts and payments for July, August and September. As of 30 June 2009, the business *Dashing Deliveries* has a bank balance of \$2 720.

	July (\$)	August (\$)	September (\$)
Estimated cash fees	11 050	11 050	11 900
<b>Estimated expenses</b>			
Wages	2 040	2 040	2 040
Advertising	544	544	544
Cleaning	300	300	300
Office expenses	5 525	5 525	5 950



In addition Slawko:

- has to pay an annual business insurance premium of \$2 295 on the 15 July
- has to pay an annual registration for her four delivery vans, which in total costs \$2 800 on 15 August
- withdraws \$2 500 for her own use each month.

- A. Prepare a cash budget for *Dashing Deliveries* for the three months ending 30 September 2009.
- B. Write a report to Slawko, commenting on the liquidity situation revealed by her cash budget.
- C. What action should Slawko take?

## 10. ANALYSIS OF CASH POSITION

Jett Printer runs a business servicing and fixing computers and printers. He would like to purchase some new equipment at a cost of \$15 000 in July. He is unsure whether the business has enough cash to pay for the purchase or whether he will need to take out a bank loan to cover the costs.

Jett has estimated the following monthly costs for July:

- bank balance as at 1 July \$3 000
- cash fees predicted \$22 500
- direct cost of providing the service \$11 700
- wages \$1 200
- drawings \$225.

- A. From his July estimates, prepare a cash budget. Use the correct title, headings and terminology throughout.
- B. Should Jett purchase the new equipment in July? Justify your answer.
- C. If Jett had estimated the cash fees to be \$30 000, would the business be in a better position to purchase the equipment? Write a report explaining the impact this would have.