# CASH BUDGETS 16 MAY 2013

## Lesson Description

In this lesson we:

- Look at the definition and importance of a Cash Budget
- Discuss expected receipts vs. expected payments
- Look at non-cash items
- Explore the format of a Cash Budget

# Key Concepts

## Cash Budget

A Cash budget is a forecast of the cash position of a business over a future period, setting out expects cash receipts as well as expected cash payments over a certain period of time.

## Why is it important to prepare a Cash Budget

- A cash budget is an essential tool used in business to monitor and plan the liquidity of the business enterprise.
- By analysing the Cash Budget, a business is able to see whether there is sufficient cash to meet short-term commitments, purchase stock, purchase additional assets, to pay for business expenses etc.
- In the event of a shortfall of cash, management can make arrangements for an overdraft or make alternate plans.

## Expected Receipts vs. Expected Payments

| EXPECTED RECEIPTS | EXPECTED PAYMENTS |
|---|---|
| Cash Sales | Cash Purchase of Stock |
| Receipts from Debtors | Payments to creditors |
| Interest received | Payment of operating expenses |
| Rent Income | Cash drawings |
| Proceeds from the sale of fixed assets | Cash purchase of fixed Assets |
| Additional Loans | Repayments of Loans |
| Fixed deposit maturing | Creating a fixed deposit |

## Format of a Cash Budget

- Expected Receipts - a forecast of all cash receipts (inflows) for the budget period.

- Expected Payments - a forecast of all cash payments (outflows) for the budget period.

- Cash surplus /(cash shortfall):

  A surplus arises when the expected receipts are greater than payments.

  A shortfall arises when payments are greater than receipts.

### Non-Cash Items

- These are items which are excluded from the cash budget as it has no effect on the business cash balance.
- Non-cash items are:
  - Depreciation
  - Trading stock deficit
  - Profit/Loss on sale of asset

## Questions

### Question 1

You are provided with the Cash Budget of Bosman Traders for the three months ended 28 February 2011. The business is owned by Alfred Bosman.

#### Required

a.) Explain why a business needs to prepare a Cash Budget every year. (2)

b.) Calculate the figures indicated by A – E in the Cash Budget. (5)

c.) The rent income was increased by 8% from 1 January 2011. Calculate the rent income figure for January 2011. (3)

d.) Refer to the salaries and wages in the Cash Budget.
- Calculate the percentage increase granted to the employees from 1 January 2011. (3)
- In your opinion, will the employees be satisfied with this increase? Briefly explain (3)

e.) As the internal auditor you discover that the actual motor vehicle expenses for December 2010 were R5 420. Provide TWO points that you would include in your internal auditors' report to Alfred. (4)

f.) A new vehicle will be purchased for R139 500 on 31 January 2011. The business will pay a deposit of 20% and the balance will be financed by Eastbank. Alfred will repay Eastbank in equal monthly instalments over three years from 28 February 2011. Interest will be paid to Eastbank monthly on the balance outstanding at a rate of 11% p.a.
- Calculate the interest payable to Eastbank in February 2011. (5)
- Calculate the **monthly** repayments of the capital portion of the loan to Eastbank. (3)

g.) Calculate the expected receipts from debtors for January 2010. (7)

## Information

**NOTE: Not all figures are shown below**

| **1. EXTRACT FROM CASH BUDGET** | | | |
|---|---|---|---|
| | **2010 December** | **2011 January** | **2011 February** |
| **EXPECTED RECEIPTS** | | | |
| Cash sales (75% of total sales) | 225 000 | 112 500 | 112 500 |
| Debtors (30 days less 5%) | 47 500 | ? | 35 625 |
| Rent income | 9 000 | ? | ? |
| Interest on fixed deposit | | 400 | 400 |
| Capital | | 150 000 | |
| | **291 000** | **355 000** | **140 000** |
| | | | |
| **EXPECTED PAYMENTS** | | | |
| Drawings | 17 500 | 12 500 | 12 500 |
| Motor vehicle expenses | 4 000 | 4 000 | 4 000 |
| Fixed deposit | | 60 000 | |
| Deposit on vehicle purchased | | ? | |
| Monthly repayments to Eastbank | | | ? |
| Interest paid to Eastbank | | | ? |
| Salaries and wages | 105 000 | 109 200 | 109 200 |
| | **240 000** | **310 000** | **390 000** |
| | | | |
| Cash surplus/shortage | 51 000 | 45 000 | **C** |
| Cash at the beginning of the month | 72 000 | **A** | **D** |
| Cash at the end of the month | **123 000** | **B** | **E** |