

REVISION: COST ACCOUNTING & BUDGETS

18 SEPTEMBER 2014



Lesson Description

In this lesson we revise:

- Cost Accounting
- Budgeting

Cost Accounting



Improve your Skills

Question 1

(Adapted from Nov 2012, DoE, Question 3)

CAPE CHOCOLATES

You are provided with information relating to Cape Chocolates for the financial year ended 30 June 2012. The business is owned by Mary Muller.

REQUIRED:

Prepare the following for the year ended 30 June 2012:

- 1.1 Factory Overhead Note to the Production Cost Statement (20)
- 1.2 Production Cost Statement (Where notes are not required, show calculations in brackets.) (16)

INFORMATION:

1. Stock balances:

	30 JUNE 2012	1 JULY 2011
Direct-/Raw-material stock	R20 000	R18 000
Work-in-process stock	?	R35 000
Indirect material stock	R7 500	R7 200

2. Transactions for the year:

A Raw materials:

- Purchased raw materials during the year, R650 000.
- Raw materials not ordered were returned to the supplier, R35 000.
- Cost of transportation of raw material was an additional R12 300.

B Factory rent paid, R68 500.

C Advertising paid, R23 500.

D Factory maintenance paid, R46 700. Repairs to the amount of R1 300 were completed in June 2012, but will only be paid in July 2012.

E Water and electricity paid, R80 000 (this amount is to be split between the factory, 70% and the office, 30%).

notes for...

Production Cost Statement:

Budgeting



Summary

Debtors Collection Schedule

The credit policy of a business determines the term for the collection of debtors accounts (credit sales), i.e. whether the debtors should pay their accounts (within 30 or 60 days). It is essential to take the pattern of debtors' collections in the past into consideration.

Projected Creditors Payments

The preparation of the creditors budget i.e. when and how much stock is purchased on credit, is the second step in the preparation of the main budget.

Cash Budget

When preparing a cash budget, the **inflows** and **outflows** of cash will need to be forecast. The following aspects will need to be taken into account by an enterprise:

RECEIPTS (FORECAST INFLOWS)	PAYMENTS (FORECAST OUTFLOWS)
Cash Sales	Payment to creditors
Collections from debtors	Operating expenses e.g. water and electricity
Proceeds from sale of fixed assets	Investments e.g. Fixed Deposit
Income from investments e.g. interest	Purchase of fixed assets
Loans received	Loan repayment, etc.
Proceeds from sale of shares	Cash purchases of goods
ETC	Buyback/repurchase of share
	Etc

Projected Income Statement

The main aim of any business is to make a profit. Regular and thorough planning is essential. Budgeting is an integral part of this process. Budgeting is forecasting for the future. The current budget is used to plan for the future.

Likewise the enterprise has to prepare a projected income statement for the future from the current income statement.

Analysis and Interpretation of a Cash Budget



Improve your Skills

Question 1

You are provided with the Debtors' Collection Schedule and an extract from the Cash Budget of Leboni Traders for the three months ending 31 March 2014. The owner is Peter Leboni.

REQUIRED:

- 1.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number.
 - 1.1.1 The main purpose of preparing the Cash Budget is ... (2)
 - 1.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is ... (2)
 - 1.1.3 ONE item that will appear in a Projected Income Statement but not in a Cash Budget is ... (2)
- 1.2 Refer to Information 1 to 7 below. Calculate the missing figures in the Debtors' Collection Schedule and the Cash Budget indicated by A to H. (22)

notes for...

- 1.3 Explain what you would say to Peter about each of the following items at the end of November, and give ONE point of advice in EACH case:

NOVEMBER 2013	BUDGET	ACTUAL
Telephone	R1 000	R5 500
Sundry expenses	R3 000	R3 000
Rent income	R6 500	R3 000

(6)

- 1.4 In order to increase sales and the number of customers, Peter intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during April.
Give THREE points of advice to Peter in this regard.

(6)

INFORMATION:

1. **Sales, purchases and cost of sales:**

- Total sales expected:

2014		
January	February	March
R500 000	R350 000	R300 000

- 60% of sales are on credit, the rest are for cash.
- The business uses a mark-up of 100% on cost at all times.
- Stock is replaced monthly.
- 20% of all purchases are for cash, the rest are on credit.
- Creditors are paid TWO months after the purchase of stock.

2. **Debtors' collection:**

The credit limit for each debtor is R25 000. In the past, debtors have settled their accounts as follows. Leboni Traders prepares its budget on this basis:

- 20% of debtors settle accounts in the month of the sale to receive a 5% discount.
- 30% settle in the 1st month following the sales month (30 days).
- 40% settle in the 2nd month (60 days).
- 10% are written off in the 3rd month.

3. **Debtors' Collection Schedule:**

		Credit sales R	2014		
			January R	February R	March R
Actual	November	345 000	138 000		
	December	480 000	144 000	192 000	
Expected	January	300 000	57 000	90 000	A
	February	210 000		39 900	63 000
	March	180 000			B
			339 000	321 900	C

4. **Extract from the Cash Budget:**

				2014		
				January	February	March
				R	R	R
RECEIPTS:						
Cash sales				200 000	D	120 000
Receipts from debtors				339 000	321 900	C
Rent income						
Loan from KZ Bank (12%)				400 000		

notes for...

PAYMENTS:			
Cash purchases	50 000	35 000	30 000
Payments to creditors	230 000	320 000	E
Interest on loan		4 000	F
Repayment of loan		40 000	40 000
Wages	32 500	22 048	G
Advertising	H	6 758	6 758
Sundry expenses			
Cash balance at end of month	350 000	200 000	(50 000)

5. Loan and interest on loan:

The interest on the loan and the monthly loan instalments are payable at the end of each month. Interest is not capitalised.

6. Wages:

- In January the business will have five employees, each earning a wage of R1 300 per week.
- All the employees are paid their wages on Fridays. There are five Fridays in January and four Fridays in February and March 2014.
- One employee will resign on 31 January 2014 and the other employees will be given a 6% increase on that date.
- The business plans to employ two more staff members at the same weekly wage as the others on 1 March 2014.

7. Advertising:

The advertising budget will be increased by 9% with effect from 1 February 2014.

Answerbook

Question 1

1.1 Complete the following sentences by filling in the missing word(s). Write only the word(s) next to the question number (5.1.1–5.1.3).

1.1.1 The main purpose of preparing the Cash Budget is ...

2

1.1.2 ONE item in the Cash Budget that will not be reflected in a Projected Income Statement is ...

2

1.1.3 ONE item that will appear in a Projected Income Statement but not in a Cash Budget is ...

2

1.2 Calculate the missing figures in the Debtors' Collection Schedule and the Cash Budget indicated by A to H:

	CALCULATION	ANSWER
A		
B		
C		
D		
E		
F		
G		
H		

22

notes for...

- 1.3 Explain what you would say to Peter about each of the following items at the end of November, and give ONE point of advice in EACH case:

	EXPLANATION	ADVICE
Telephone		
Sundry expenses		
Rent income		

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- 1.4 In order to increase sales and the number of customers, Peter intends to advertise that credit limits for all credit customers will be increased to R35 000 and that new customers are welcome to open accounts during April.

Give THREE points of advice to Peter in this regard.

Point 1	
Point 2	
Point 3	

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