**Question 12**

The following is the Sales Budget of Crownpoint Ltd for the 6 month period July to December Year 2.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Sales (units)** | **July** | **August** | **September** | **October** | **November** | **December** |
|  |  |  |  |  |  |  |
| Retail Cash Sales | 1,300 | 1,400 | 1,500 | 1,600 | 1,700 | 1,800 |
| Wholesale Credit Sales | 6,500 | 7,400 | 8,300 | 5,600 | 4,800 | 7,500 |

The closing inventory for each month is maintained at 20% of the cash sales of the following month.

Cash sales revenue for January Year 3 is estimated at 2,000 units.

**(a)** **Prepare** the Production Budget for 6 months July–December Year 2. **6**

The following information is also available:

1. Retail selling price per unit: £40 (no discount). Wholesale terms: 10% cash discount — 1 month.
2. It is estimated that 80% of trade receivables will receive the cash discount by paying in the month following the sale. Of the remaining trade receivables, 95% will pay   
   2 months after sale and the rest will be written off as a bad debt.
3. Material costs £12 per unit — 25% payable in the month of production and the remainder in the month after production.
4. Labour costs £8 per unit — payable in the month of production.
5. A bonus of £2 per unit for each unit produced over 8000 units (normal production)   
   — paid in the month following production.
6. Variable overhead costs £6 per unit — payable in the month of production.
7. Fixed costs of £32,000 (including depreciation of £3,200) — paid monthly.
8. Selling expenses of £2 per unit on credit revenue — payable 2 months after sales.
9. The firm plans to purchase new machinery costing £120,000. An initial deposit of 25% is payable in November and the remainder is payable in equal monthly instalments of £22,500, starting in December.
10. 20,000 £1 shares are to be issued in June, at a premium of 50p per share. Full payment for this issue is to be received in October.
11. In December, an interim dividend of 5% will be paid to the new shareholders, while existing shareholders (with equity of £150,000) will receive a dividend of 10%.

**(b)** **Prepare** the Cash Budget for the 3 months October to December Year 2. It is estimated that there will be a cash and cash equivalent overdraft of £40,000 by the end of September. **31**

**Total marks (37)**

**Question 12 — solution**

**(a)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Production Budget** | **July** | **August** | **September** | **October** | **November** | **December** |  |
| Closing Inventory | 280 | 300 | 320 | 340 | 360 | 400 | **(1)** |
| Cash Sales | 1,300 | 1,400 | 1,500 | 1,600 | 1,700 | 1,800 | **(1)** |
| Credit Sales | 6,500 | 7,400 | 8,300 | 5,600 | 4,800 | 7,500 | **(1)** |
|  | 8,080 | 9,100 | 10,120 | 7,540 | 6,860 | 9,700 | **(1)** |
| Opening Inventory | 260 | 280 | 300 | 320 | 340 | 360 | **(1)** |
| Production | 7,820 | 8,820 | 9,820 | 7,220 | 6,520 | 9,340 | **(1)** |

**6**

**Retail Credit Credit**

**1 month 2 month**

Selling Price £40 £36 £40

**(b) CASH BUDGET FOR OCTOBER TO DECEMBER**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **October** |  | **November** |  | **December** |  |  |
| Opening Balance |  | −40,000 | **(1)** | 90,920 |  | 132,060 |  |  |
|  |  |  |  |  |  |  |  |  |
| **RECEIPTS** | **£** | **£** |  | **£** |  | **£** |  |  |
| Cash Revenue |  | 64,000 |  | 68,000 |  | 72,000 | **(1) line** |  |
| Credit 1 month |  | 239,040 | **(1)** | 161,280 | **(1)** | 138,240 | **(1)** |  |
| Credit 2 month |  | 56,240 | **(1)** | 63,080 | **(1)** | 42,560 | **(1)** |  |
| Share Issue |  | 20,000 | **(1)** |  |  |  |  |  |
| Share Premium |  | 10,000 |  |  |  |  |  |  |
| Total Receipts |  | 389,280 |  | 292,360 |  | 252,800 |  |  |
|  |  |  |  |  |  |  |  |  |
| **PAYMENTS** |  |  |  |  |  |  |  |  |
| Materials 25% | 12 | 21,660 | **(1)** | 19,560 | **(1)** | 28,020 | **(1)** |  |
| Materials 75% |  | 88,380 | **(1)** | 64,980 | **(1)** | 58,680 | **(1)** |  |
| Labour | 8 | 57,760 | **(1)** | 52,160 | **(1)** | 74,720 | **(1)** |  |
| Bonus | 2 | 3,640 | **(2)** |  |  |  |  |  |
| Variable Overhead | 6 | 43,320 | **(1)** | 39,120 | **(1)** | 56,040 | **(1)** |  |
| Fixed Costs |  | 28,800 |  | 28,800 |  | 28,800 | **(1) line** |  |
| Selling Expenses | 2 | 14,800 | **(1)** | 16,600 | **(1)** | 11,200 | **(1)** |  |
| Deposit on Machine |  |  |  | 30,000 | **(1)** |  |  |  |
| Instalment on Mach. |  |  |  |  |  | 22,500 | **(1)** |  |
| Interim Dividend 5% |  |  |  |  |  | 1,000 | **(1)** |  |
| Interim Dividend 10% |  |  |  |  |  | 15,000 | **(1)** |  |
| Total Payments |  | 258,360 |  | 251,220 |  | 295,960 |  |  |
|  |  |  |  |  |  |  |  |  |
| Closing Balance |  | 90,920 |  | 132,060 |  | 88,900 |  | **31** |
|  |  |  |  |  |  |  |  |  |

**Total marks (37)**