**Question 32**

The following budgeted data relate to Scotia Enterprises plc for the period July to November Year 4.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **July** | **August** | **September** | **October** | **November** |
| Sales (in units) | 4,000 | 4,300 | 4,600 | 5,000 | 4,800 |
| Production (units) | 4,120 | 4,420 | 4,760 | 4,920 | – |

The following information is also available:

1. Cash and cash equivalents balance at 1 August is expected to be £12,000.
2. The retail selling price per unit is £40.

* Credit sales are expected to be 40% of total sales
* Credit revenue is to trade customers at a discount of 10%
* Credit revenue is paid for one month after sale
* Monthly bad debts are estimated to be 10% of credit sales

1. Costs are as follows:

* Materials — £14 per unit, payable in the month before production
* Labour — £12 per unit, payable in the month of production
* Variable overheads — £10 per unit — 50% payable in the month of production and the rest in the month following production

1. Fixed costs, excluding depreciation of £1,500, are £3,000 per month.
2. A van owned by the business will be sold during the month of August. The purchase price of the van was £12,000 and at time of sale, will have an expected net book value of £6,500. It is estimated that it will be sold for a profit of £300.
3. The company will issue 20,000 ordinary shares of 50p each in August at a premium of 10p per share.
4. The company will receive a loan of £30,000 from the bank in August. The bank loan, including interest of 5% per annum, will be repaid in 12 equal instalments starting in September.

(a) **Prepare** the Cash Budget for the months of August and September Year 4. **20**

**Total marks (20)**

**Question 32 — solution**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **Cash Budget for 2 months/August–September (Year 4) ✓** | | | | |  |
|  |  |  |  |  |  |
|  | **August** |  | **September** |  |  |
| Opening Balance | 12,000 | **(1)** | 50,460 |  |  |
|  |  |  |  |  |  |
| **RECEIPTS** |  |  |  |  |  |
| Cash Revenue | 103,200 | **(1)** | 110,400 | **(1)** |  |
| Credit Revenue | 51,840 | **(1)** | 55,728 | **(1)** |  |
| Loan | 30,000 | **(1)** |  |  |  |
| Ordinary Shares | 10,000 | **(1)** |  |  |  |
| Share Premium | 2,000 | **(1)** |  |  |  |
| Proceeds of Sale — Van | 6,800 | **(1)** |  |  |  |
| **TOTAL RECEIPTS** | £203,840 |  | £166,128 |  |  |
|  |  |  |  |  |  |
| **PAYMENTS** |  |  |  |  |  |
| Materials | 66,640 | **(1)** | 68,880 | **(1)** |  |
| Labour | 53,040 | **(1)** | 57,120 | **(1)** |  |
| Variable Overheads — 1 | 22,100 | **(1)** | 23,800 | **(1)** |  |
| Variable Overheads — 2 | 20,600 | **(1)** | 22,100 | **(1)** |  |
| Fixed Overheads | 3,000 |  | 3,000 | **(1)** |  |
| Loan Repayment |  |  | 2,500 | **(1)** |  |
| Loan Finance Cost |  |  | 125 | **(1)** |  |
| **TOTAL PAYMENTS** | £165,380 |  | £177,525 |  |  |
| Closing Balance | £50,460 |  | £39,063 |  |  |
|  |  |  |  |  |  |
|  |  |  |  |
| TOTAL SALES REVENUE | 155,040 |  | 166,128 |  |  |

**20**

**Total marks (20)**