**Question 8**

Andy Bishop is preparing his budgets for the first part of Year 5 and supplies you with the following information:

1 Sales in units are expected to be as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Dec | Jan | Feb | Mar | Apr | May |
| 1,500 | 1,400 | 1,200 | 1,300 | 1,200 | 1,500 |

2 Sales are on a 20% cash basis and 80% on one month’s credit.

3 The standard selling price of the unit is £40 but cash sales are at a discount of 5%.

4 Raw material costs are £15 per unit and are paid for one month before sale.

5 Direct wage costs are £12 per unit and are paid in the same month as sales.

6 A commission of £2·00 per unit on all sales over 1,000 units in any month, will be paid to sales staff in the month following the sales.

7 Fixed costs are expected to be £10,000 in January and February, but then rise by £2,000 in March.

8 In February, Andy plans to invest another £20,000 of his own money into the firm.

9 The bank balance is £5,000 overdrawn at the end of Year 4.

**(a)** Prepare the Cash Budget for Andy Bishop for the 3 months from January to March   
Year 5. **26**

**(b)** Give **two** reasons for preparing a cash budget. **2**

**(c)** Other than preparing a cash budget, state **two** duties of a management accountant. **2**

**Total marks (30)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **8 (a)** | |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Cash Budget of Andy Bishop for 3 months Jan - Mar Year 5** | | | | | | | |  | **Jan** |  | **Feb** |  | **Mar** |  | | Opening Balance | -5,000 | **(1)** | 7,840 |  | 37,060 | **(1)** | | **Receipts** |  |  |  |  |  |  | | Cash Sales | 10,640 | **(4)** | 9,120 | **(1)** | 9,880 | **(1)** | | Credit Sales | 48,000 | **(3)** | 44,800 | **(1)** | 38,400 | **(1)** | | Equity |  |  | 20,000 | **(1)** |  |  | |  | 58,640 |  | 73,920 |  | 48,280 |  | |  |  |  |  |  |  |  | | **Payments** |  |  |  |  |  |  | | Raw Materials | 18,000 | **(1)** | 19,500 |  | 18,000 | **(1)** | | Wages | 16,800 | **(1)** | 14,400 |  | 15,600 | **(1)** | | Commission | 1,000 | **(3)** | 800 | **(1)** | 400 | **(1)** | | Fixed Costs | 10,000 |  | 10,000 | **(1)** | 12,000 | **(1)** | |  | 45,800 |  | 44,700 |  | 46,000 |  | |  |  |  |  |  |  |  | | Closing Balance | 7,840 |  | 37,060 |  | 39,340 | **(1)** |   **NOTES:**  Cash sales Jan — 1,400 **(1)** × [£40 **(1)** × 95% **(1)** × 20% **(1)**]  Cash sales Feb — 1,200 **(1)** × (£40 × 95% × 20%)  Cash sales Mar — 1,300 **(1)** × (£40 × 95% × 20%)  Credit sales Jan — 1,500 **(1)** × [£40 **(1)** × 80% **(1)**]  Credit sales Feb — 1,400 **(1)** × (£40 × 80%)  Credit sales Mar — 1,200 **(1)** × (£40 × 80%)  Commission Jan — [1,500 − 1,000 **(2)**] × £2·00 **(1)**  Commission Feb — (1,400 − 1,000) × £2·00 **(1)**  Commission Feb — (1,400 − 1,000) × £2·00 **(1)** | **26** | Watch for consequentiality throughout.  **Receipts**  Marks should be awarded to candidates for correct calculation. For credit sales, if candidates do not delay receipt by a month, they will gain full marks for Jan figure  (if correctly calculated) but no mark for Feb and Mar figures, eg:  **Jan** **Feb** **Mar**  44,800 38,400 41,600  **(3)** **(0)** **(0)**  Cash and credit sales for Feb and Mar are consequential on the Jan calculation.  **Payments**  For raw materials and wages, if calculations correct but figures entered into wrong months — **max 1 mark** per line.  For commission — if candidates do not delay payment by a month, they will gain full marks for Jan figure (if correct) but no mark for Feb and Mar figures.  If candidates do not calculate the extra units (ie Jan 1,500 − 1,000) then Jan give only **1 mark** and Feb and Mar are consequential. |

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max mark** | **Additional guidance** |
| **8 (b)** | Reasons for preparing a cash budget:   * aids decision-making, eg capital expenditure * anticipates possible shortages, eg cash * enables target setting, eg to achieve objectives * allows for comparisons, eg actual results with expected results * facilitates corrective action, eg when differences occur | **2** | Accept any two appropriate reasons for  **1 mark** each.  Accept any other relevant answer. |
| **8 (c)** | Duties of a management accountant:   * provides management with information to enable decision-making * responsible for the collection, processing and classification of costs * supplies data to make the most efficient use of limiting factors * provides management with data for internal use * accountable for the planning and control of production * manages cost accounting systems and determines which system is most appropriate * prepares break-even statements, charts, etc | **2** | Accept any two appropriate reasons for  **1 mark** each.  Accept any other relevant answer. |