**Accounting**
**Leaving Certificate**
**Higher Level**

**Past exam questions on**
**Cash budgeting**

**Q9 2012**

## 9. Cash Budgeting

Greene Ltd is preparing to set up business on 1/1/2010 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2010.

**Sales Budget**

| | **January** | **February** | **March** | **April** | **May** | **June** |
|---|---|---|---|---|---|---|
| Sales units | 8,000 | 8,500 | 10,000 | 11,000 | 11,500 | 10,500 |
| Sales revenue | €240,000 | €255,000 | €300,000 | €330,000 | €345,000 | €315,000 |

(i) The cash collection pattern from sales is expected to be:

**Cash Customers** 30% of sales revenue will be for immediate cash.

**Credit Customers** 70% of sales revenue will be from credit customers. These debtors will pay their bills, 50% in the month after sale and the remainder in the second month after sale.

(ii) The product requires 4 kg of material X, which costs €1.50 per kg.

(iii) Stocks of finished goods are maintained at 60% of the following month's sales requirement.

(iv) Stocks of raw materials, sufficient for 10% of the following month's requirements in kgs, are held at the end of each month.

(v) One month's credit is received from suppliers.

(vi) Expenses of the business will be settled as follows:

**Expected Costs** Wages €20,000 per month, payable as incurred.
Variable overheads €5 per unit, payable as incurred.
Fixed overheads (including depreciation) €29,000 per month, payable as incurred.

**Capital Costs** Equipment will be purchased in January costing €30,000 which will have a useful life of 5 years. To finance this purchase a loan of €24,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2010.

**You are required to:**

(a) Prepare a Production Budget for the four months January to April, 2010.

(b) Prepare a Materials Purchase Budget (in units and €) for the four months January to April, 2010.

(c) Prepare a Cash Budget for the 4 months January to April, 2010.

(d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2010 (if the budgeted cost of a unit of finished goods is €20).

(e) Prepare a note on the factors taken into account by Greene Ltd in arriving at the expected sales of 59,000 units for the six months of 2010.

**(80 marks)**

## Q9 Cash budget 2010

9. **Cash Budgeting**

Woods Ltd is preparing to set up business on 01/07/2011 and has made the following forecast for the first six months of trading:

| | July | August | September | October | November | December | Total |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| Sales | 410,000 | 430,000 | 560,000 | 580,000 | 610,000 | 630,000 | 3,220,000 |
| Purchases | 190,000 | 210,000 | 240,000 | 250,000 | 330,000 | 350,000 | 1,570,000 |

(i) The expected selling price is €40 per unit.

(ii) The cash collection pattern from Debtors is expected to be:

**Cash Customers:** 40% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

**Credit Customers:** 60% of sales revenue will be from credit customers. These debtors will pay their bills 50% in month after sale and the remainder in the second month after sale.

(iii) The cash payments pattern for purchases is expected to be:

**Credit Suppliers:** The purchases will be paid for 50% in the month after purchase when a 2% cash discount will be received. The remaining purchases will be paid for in the second month after purchase.

(iv) Expenses of the business will be settled as follows:

**Expected Costs:** Wages €40,000 per month payable as incurred
Variable overheads €10 per unit payable as incurred
Fixed overheads (including depreciation) €45,000 per month payable as incurred.

**Capital Costs:** Equipment will be purchased in July costing €48,000 which will have a useful life of 5 years. To finance this purchase a loan of €44,000 will be secured at 9% per annum. Interest to be paid monthly, but capital loan repayments will not commence until January 2012.

**You are required to**:

**(a)** Prepare a cash budget for six months July to December 2011.
**(b)** Prepare a budgeted profit and loss account for the six months ended 31/12/2011.
**(c)** What is an adverse variance? State why adverse variances may arise in direct material costs.

**(80 marks)**

**Q9 2009**

## 9. Cash Budgeting

Greene Ltd is preparing to set up business on 1/1/2010 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2010.

**Sales Budget**

| | **January** | **February** | **March** | **April** | **May** | **June** |
|---|---|---|---|---|---|---|
| Sales units | 8,000 | 8,500 | 10,000 | 11,000 | 11,500 | 10,500 |
| Sales revenue | €240,000 | €255,000 | €300,000 | €330,000 | €345,000 | €315,000 |

(i) The cash collection pattern from sales is expected to be:

**Cash Customers** 30% of sales revenue will be for immediate cash.

**Credit Customers** 70% of sales revenue will be from credit customers. These debtors will pay their bills, 50% in the month after sale and the remainder in the second month after sale.

(ii) The product requires 4 kg of material X, which costs €1.50 per kg.

(iii) Stocks of finished goods are maintained at 60% of the following month's sales requirement.

(iv) Stocks of raw materials, sufficient for 10% of the following month's requirements in kgs, are held at the end of each month.

(v) One month's credit is received from suppliers.

(vi) Expenses of the business will be settled as follows:

**Expected Costs** Wages €20,000 per month, payable as incurred.
Variable overheads €5 per unit, payable as incurred.
Fixed overheads (including depreciation) €29,000 per month, payable as incurred.

**Capital Costs** Equipment will be purchased in January costing €30,000 which will have a useful life of 5 years. To finance this purchase a loan of €24,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2010.

**You are required to:**

(a) Prepare a Production Budget for the four months January to April, 2010.

(b) Prepare a Materials Purchase Budget (in units and €) for the four months January to April, 2010.

(c) Prepare a Cash Budget for the 4 months January to April, 2010.

(d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2010 (if the budgeted cost of a unit of finished goods is €20).

(e) Prepare a note on the factors taken into account by Greene Ltd in arriving at the expected sales of 59,000 units for the six months of 2010.

**(80 marks)**

**Q 9 2007**

## 9 <u>Cash Budgeting</u>

Aisling Ltd. is preparing to set up business on 1/7/2007 and has made the following forecast for the first six months of trading:

| | July | August | September | October | November | December | Total |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | € | € | € |
| Sales | 425,000 | 440,000 | 580,000 | 590,000 | 600,000 | 652,000 | 3,287,000 |
| Purchases | 200,000 | 215,000 | 252,000 | 260,000 | 350,000 | 356,000 | 1,633,000 |

(i) The expected selling price is €50 per unit.

(ii) The cash collection pattern from Sales is expected to be:

**Cash Customers -** 30% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

**Credit Customers -** 70% of sales revenue will be from credit customers. These debtors will pay their bills 50% in month after sale and the remainder in the second month after sale.

(iii) The cash payments pattern for purchases is expected to be:

**Credit Suppliers -** The purchases will be paid for 50% in month after purchase when 2% cash discount will be received.
The remaining purchases will be paid for in the second month after purchase.

(iv) Expenses of the business will be settled as follows:

**Expected Costs** Wages €35,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €42,000 per month payable as incurred.

**Capital Costs** Equipment will be purchased in July costing €45,000 which will have a useful life of 5 years. To finance this purchase a loan of €40,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until January 2007.

**You are required to:**

(a) Prepare a cash budget for the six months July to December 2007.

(b) Prepare a budgeted Profit and loss account for the six months ended 31/12/2007.

(c) Define 'cash budget' and describe two of its advantages.

**(80 marks)**

## Q 9 2002

## 9. Cash Budgeting

O'Toole had the following Assets and Liabilities at 1st Jan 2002

| | € | € |
|---|---|---|
| **Assets** | | |
| Stock | 47,250 | |
| Debtors | 8,000 | |
| Cash | 1,500 | |
| Rates prepaid (3 months) | 600 | 57,350 |
| **Liabilities** | | |
| Capital | | 57,350 |

O'Toole expects the sales for the next 7 months will be as follows:

| Jan | Feb | March | April | May | June | July |
|---|---|---|---|---|---|---|
| €63,000 | €81,000 | €75,000 | €69,000 | €72,000 | €75,000 | €87,000 |

(i) 80% of sales are for cash and 20% are on credit, collected one month after sale.

(ii) Gross profit as percentage of sales is 25%.

(iii) O'Toole wishes to keep a minimum cash balance of €6,000 at the end of each month.

(iv) All borrowings are in multiples of a thousand euro and interest is at the rate of 10% per annum.

(v) Purchases each month should be sufficient to cover the following month's sales.

(vi) Purchases are paid for by the end of the month.

(vii) Purchased machine on Feb 1 for €12,000 (Depreciation 15% per annum on cost).

(viii) O'Toole rents the premises for €24,000 per annum payable each month.

(ix) Wages amounting to €12,500 are paid each month.

(x) Purchased for cash on 1 April a computer for €2,200 (Depreciation of 20% per annum on cost).

(xi) Rates paid for 6 months from 1 April were €2,400 (paid in April).

(xii) One quarter of the money borrowed on 31/1/2002 is to be repaid at the end of June together with interest to date on the repaid amount.

**You are required to prepare a:**

(a) Cash budget for the six month period from January to June.

(b) Budgeted Profit and Loss (Pro-forma income statement) for the six months ended 3 0/6/2002.

**(80marks)**