

CASH BUDGETS

PRACTICE TEST #1

ACCOUNTING AND FINANCE – UNIT 3



ATAR Survival Guide: Answer Key

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Answer Key

Question 1i) Produce a cash budget for the month ended 30 June 2017. (22 marks)

Workings

Calculation for Wages Paid

Accrued Wages			
Bank	8000	Bal b/d	6000
Bal c/d	4000	Wages Expense	6000
	<u>12000</u>		<u>12000</u>

Schedule of Collections from Debtors

Month	Credit Sales	Collections
March	25000	5000
April	50000	15000
May	50000	25000

Future Advanced Technology Ltd.

Cash Budget

For the month ended 30 June 2017

Opening Balance 10000 (1 mark)

Cash Receipts

Cash Sales 50000 (1 mark)

Collections from Debtors 45000 (6 marks)

Sale of Asset – Motor Vehicle 5000 (2 marks)

Interest Received 200 (2 mark)

Total Cash Receipts 100200 (1 mark)

Cash Payments

Deposit on Purchase of (10000) (1 mark)

Machinery

Payment to Creditors (15000) (1 mark)

Wages Paid (8000) (3 marks)

Cash Dividends Paid to (5000) (1 mark)

Shareholders

Income Tax Paid (3500) (1 mark)

Total Cash Payments (41500) (1 mark)

Closing Balance 58700 (1 mark)

Question 1ii) Produce an income statement for Future Advanced Technology Ltd. For the month ended 30 June 2017. Do not include income tax. (15 marks)

Calculation of Interest Income for the Month of June

Closing Bank Balance = \$58700

Interest Income = \$58700 * 0.5% = \$293 (Rounded down)

(Follow through marks if interest is correctly calculated using a wrong closing bank balance.)

Calculation of Sale of Asset of Motor Vehicle

Sale of Asset			
Motor Vehicle	8000	Accumulate Depreciation	2000
		Bank	5000
		Loss on Sale	1000
	<u>8000</u>		<u>8000</u>

Calculation of Cost of Sales

Inventory			
Bal b/d	20000	Cost of Sales	15000
Accounts Payable	10000	Bal c/d	15000
	<u>30000</u>		<u>30000</u>

Future Advanced Technology Ltd. Income Statement For the Month Ended 30 June 2017		
Sales	50000	(1 mark)
Less Cost of Sale	(15000)	(3 marks)
Gross Profit	<u>35000</u>	(1 mark)
Add Other Income		
Interest Income	293	(2 marks)
Total Income	<u>15293</u>	(1 mark)
Less Operating Expenses		
Wages	(6000)	(1 mark)
Depreciation	(500)	(1 mark)
Loss on Sale of Motor Vehicle	(1000)	(3 marks)
Total Expenses	<u>(7500)</u>	(1 mark)

Section 2: Theory

Question 2: How can a business produce a profit but still produce a cash deficit? Use examples where possible. (4 marks)

Description	
Two reasons, 2 marks for each	
Answer Could Include:	
<ul style="list-style-type: none"> The business could have spent too much money on capital expenditure, such as new machinery, which will decrease cash but have no effect on the income or expenses of a business 	2 marks
<ul style="list-style-type: none"> The business could have purchased too much inventory, which will decrease cash but have no effect on the income or expenses of a business 	2 marks
Total	4 marks
Accept other relevant answers	

Question 3: Why would a business produce a cash budget performance report? (3 marks)

Description	
Candidate explains either 2 detailed reasons (2 marks each) or lists 4 brief reasons (1 mark each)	
Answer Could Include:	
<ul style="list-style-type: none"> To compare the cash budgeting performance of expected to actual results 	2 marks
<ul style="list-style-type: none"> To identify and resolve areas of unfavourable variance in the future 	2 marks
<ul style="list-style-type: none"> To assist with the planning and setting allowances of future cash budgets 	2 marks
Total	5 marks
Accept other relevant answers	

Question 4: Explain the purpose of producing a cash budget. (6 marks)

Description	
2 marks for a detailed reason or 1 mark for a brief reason.	
Answer Could Include:	
<ul style="list-style-type: none">• Planning and anticipating for future cash expenditures	1 mark
<ul style="list-style-type: none">• Controlling cash expenditure and ensuring a positive cash balance	1 mark
<ul style="list-style-type: none">• Motivating employees to achieve cash targets, such as a sales target	1 mark
<ul style="list-style-type: none">• Communicating the future financial objectives to all employees of the business	1 mark
<ul style="list-style-type: none">• Acts as authorisation of expenditure – expenditures included in the cash budget do not require authorisation unless over-budget	1 mark
<ul style="list-style-type: none">• Co-ordinating and considering the role of different departments/functions of the business to produce one financial goal.	1 mark
Total	6 marks
Accept other relevant answers	

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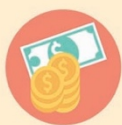
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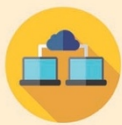
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