

SOLUTIONS TO HOMEWORK: SESSION 18 TOPIC: BUDGETS

QUESTION 1 **Inspections*

1.1 Any valid explanation ✓✓

Possible responses:

- To reflect on whether your projected income and expenditure have been realistic
- To improve future projections
- To determine variances between projections and actual amounts (over-expenditure / income or under-expenditure/ income)
- To be able to control income and expenditure on a monthly basis (2)

1.2.1 ✓ ✓ *
132 000 / 240 000 x 100 = 55 % (3)

1.2.2 Any valid explanation ✓

Quoting of figures ✓

- Even though the mark-up is less than budgeted for, the gross profit of R132 000 in September exceeded the budget of R120 000 (October: R137 500 exceeded R132 000).
- Sales increased from R320 000 to R372 000.
- Net profit increased from R81 450 to R98 050. (2)

1.3 Good explanation = 2 marks; Satisfactory =1; Incorrect =0 ✓✓

Cash problems will be identified in the cash budget. The Projected Income Statement reflects profit. Certain income items may not have been collected, while payments for debts are not reflected in the Projected Income Statement. (2)

1.4.1 ✓ ✓ ✓ *
2 250 x 100 / 18 x 12 =R150 000 (4)

1.4.2 Any three valid points: One mark each ✓ ✓ ✓

Quoting of figures: One mark each ✓ ✓ ✓

Possible responses:

- Interest on the additional loan = R15 000 leads to decrease in profits
- Saving on rent R24 000 p.m.
- Rates are now being incurred R10 000 In October which decreases profits
- Repairs and maintenance will be incurred in future and will lead to decreased profits.
- Capital profit in the future on assets bought. (6)

1.5 ✓ ✓✓
Fee income R56 000 is less than the budgeted figure of R96 000. (3)

1.6.1 $3\ 080 \checkmark / 28\ 000 \checkmark \times 100 = 11\% \checkmark^*$ (3)

1.6.2 Yes / No ✓ Evidence ✓✓

If yes: The wage increase of 11% cost the business a lot less than the extra shop assistants would have, i.e. 40%.

If no: The shop assistants will be required to accept a heavier workload without the additional assistants (this could demotivate them). Sales increase to R387 500 (R352 000 expected) (3)

1.7 Debtors' collection schedule

	Budgeted credit sales	October collections from debtors
August	R210 000	R16 800 ✓✓
September	R240 000	R120 000 ✓✓
October	R264 000 ✓✓	R100 320 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> #
	# If 38% of credit sales	R237 120 <input checked="" type="checkbox"/> *

(9)

1.8 ✓ ✓
Bad debts R9 250 or R8 550 exceed budget

✓ ✓
Discount allowed R2 640 or R4 100 is below budget (4)

1.9 Good explanation = 2 marks; Satisfactory =1; Incorrect =0 ✓✓
✓✓

Any two operating expenses with valid discussions

- **Telephone:** Implement restrictions/code to restrict overuse of the telephone.
- **Consumable stores:** Record usage of consumable stores/put a person in charge to avoid/reduce wastage or theft.
- **Advertising:** Utilise the budget each month in order to maximise the effect on sales. Consider alternative forms of advertising that might be more effective e.g. brochures, special promotions, etc.
- **Security expenses:** This cannot be compromised. It affects other expenses e.g. Trading Stock deficit. Assess the work done by the security company to ensure efficiency.
- **Trading stock deficit:** Implement stricter control measures such as regular counts, security cameras, etc.
- **Depreciation:** Assess the reason for the increase. If purchase of extras assets was properly authorised then this is a legitimate overrun.

(4)

[45]