

Note: Higher level questions are marked with an asterisk*

3. Pierre Blanc

Pierre Blanc has been trading for some years as a retailer of cheese. His bank account is expected to have an overdrawn balance of €3,100 at 31 March 2022, and Pierre needs to show his bank manager that this can be reduced over the following 3 months. The details of his expenditure are as follows:

1. Sales, which are all made for cash, are expected to be as follows:

	€
April 2022	4,100
May 2022	5,200
June 2022	6,000

2. Purchases will be made as follows:

	€
April 2022	2,050
May 2022	2,100
June 2022	3,500

Suppliers allow 2 months' credit.

3. Rent of €5,400 per annum is payable monthly.
4. Pierre employs a part-time member of staff who is paid €300 per month.
5. Pierre plans to make drawings of €500 per month.
6. Other expenses will be paid as follows:

	€
April 2022	150

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Chapter 1 – The Cash Budget
Practice questions

May 2022	200
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June 2022	350
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7. Sales and purchases made in January to March were as follows:

	Sales	Purchases
	€	€
January 2022	3,600	1,700
February 2022	3,700	1,800
March 2022	3,800	1,900

REQUIRED:

- Prepare Pierre's cash budget for the 3 months ended 30 June 2022.
- How much will Pierre owe for trade payables at 30 June 2022?

4. Sean

Sean intends to start his own business selling specialist wines. Some of his sales will be for cash from a shop that he intends to rent. He also plans to sell some wine on credit to local restaurants and hotels. The details of his business plan are as follows:

- He will rent a shop for €10,000 per annum payable quarterly in advance. The landlord also requires a deposit of €5,000 to be paid when the rental starts in June.
- He will invest €12,000 from his own savings and his father will loan him €8,000. His father will charge interest at a rate of 5% per annum payable annually after an interest free period of 6 months.

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 Chapter 1 – The Cash Budget
 Practice questions

3. Sean will purchase and pay for €12,000 of wine in June and thereafter. To maintain that level of inventory, he will continuously purchase wine to replace what is sold.
4. Suppliers will allow one month's credit and credit customers will expect one month's credit.
5. Sales levels are predicted to be:

	Total sales	Cash sales	Credit sales
	€	€	€
June	6,000	3,000	3,000
July	6,500	3,000	3,500
August	7,000	3,000	4,000
September	8,000	3,500	4,500
October	9,500	4,500	5,000
November	12,000	5,000	7,000

6. Wine will be sold at a gross profit margin of 20%.
7. Sean intends to withdraw €500 per month for his own use and will employ a part-time assistant whom he will pay €400 per month.
8. Sean will need to purchase and install shelving that will be delivered and paid for at the beginning of June at a cost of €3,800. He will also lease a van at a cost of €450 per month.
9. Other anticipated costs are:

	€
June	500
July	380

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Chapter 1 – The Cash Budget
Practice questions

August	400
September	500
October	550
November	600

REQUIRED:

- Prepare a cash budget for Sean for his first 6 months' trading to 30 November.
- What size overdraft facility should Sean request from his bank?
- If sales remain stable at the November level from then onwards, what will happen to the overdraft?

5. Manuel

Manuel runs a business called Digital Security, which installs home digital security systems. At 1 January the business has a bank balance of €4,500. You have been asked to prepare a cash budget for the business covering the following 3 months to 31 March.

Details of the business are as follows:

- Sales income is made up of the systems and installation charges:

	Systems	Installation	Total
	€	€	€
January	10,800	5,000	15,800
February	15,000	6,000	21,000
March	16,800	7,000	23,800

Customers pay on completion of the work for all jobs completed in the month.

- b) Systems are sold at a gross profit margin of 16.67 per cent and suppliers allow one month's credit. The amount due for systems purchased in December is €8,400.
- c) An insurance premium of €1,800 is payable in February to cover the 6 months to July.
- d) Wages of €4,000 per month are payable for January and February rising to €5,000 for March. Manuel intends to take €3,000 from the business each month for his own use.
- e) Motor expenses of €400 are payable each month.
- f) The business regularly runs local radio advertisements costing €450 per month.

REQUIRED:

Prepare a cash budget for Digital Security for the three months ended 31 March.

***6. Ben Lee**

Ben Lee is considering setting up a business offering mobile shoe repairs in the Oxfordshire area. He has visited the major employers in the area and, using their car parks, offers an as-you-wait shoe repair service from his van. Having reached agreement with a number of large local businesses and having carried out surveys of his potential customers, he has arrived at the following estimates for his first 3 months of trading:

1. He will start the business by investing £12,000 of his own money in March 2022 and, in that month, he will purchase a second-hand van at a cost of £9,000 and various machinery for £3,000. Also in March, he will buy inventories of materials at a cost of £3,850. The van would then be painted to advertise his business, at a cost of £700, payable in April 2022.
2. He will commence trading in April 2022 and expects sales to be as follows:

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Chapter 1 – The Cash Budget
Practice questions

April 2022	£1,300
May 2022	£1,500
June 2022	£1,800

Materials needed for the repairs would cost 30% of the sales price of each repair, giving a margin of 70% and materials would be regularly replaced to maintain inventories at a constant level.

- Petrol will be £80 per month from April 2022 onwards and motor insurance for the year to 31 March 2013 will be £750, payable in April 2022.
- All sales will be for cash and all purchases, including the purchase of opening inventories, will be on one month's credit.
- Ben will make drawings of £500 per month starting in April 2022.

REQUIRED:

- What is the purpose of producing a cash budget? Give three reasons.
- Prepare a cash budget for Ben Lee for the four months ended 30 June 2022.

7. Sue

Sue runs a business called Oxford Cycles, selling fold-up bicycles. She set up this business in 2014 and is now looking to expand by taking on two extra members of staff to help meet a recent sharp increase in demand. This is as a result of a contract with the local council, who have given their staff the option of free fold-up bicycles, paid for by the council, if they cycle to work. There has been good take-up from staff in relation to this

offer. The contract will be fulfilled over the next year, and the estimated sales figure for Oxford Cycles includes the council's contracted amounts.

Details of the business are as follows:

- Oxford Cycles expects to have a bank balance of £3,500 at 31 December. At that date, the business will owe £1,600 to suppliers for goods supplied in December 2021.
- Sue has negotiated a bank overdraft facility of £2,000 for the next two years to 31 December 2023.
- The shop rental is £900 per quarter, payable in January, April, July, and October.
- All sales are made for cash. Purchases are made on one month's credit.
- Sue's sales income for January to June 2022 is predicted to be as follows:

Income from bicycle sales

	£
January	8,000
February	6,000
March	5,000
April	5,000
May	5,000
June	8,000

Sue makes a 33.33% gross profit margin on each bicycle sold.

- Sue is planning to buy a van at the beginning of January. The cost of the van will be £4,200 paid in cash. Petrol for the van will be paid in cash and is estimated as £200 per month.

- Sue plans to take £700 out of the business each month to cover her personal living expenses.
- The cost of the two new members of staff means that the total monthly wage bill paid in cash will be £1,200 from January 2022.
- Sue spends £400 per month on electricity costs.

REQUIRED:

- a) Prepare a cash budget for Oxford Cycles for the six months ending 30 June 2022.
- b) What advice would you give to Sue?