Week 4 – Chapter 6

CASH BUDGETS

FNSACC503A
Manage Budgets and Forecasts
**MASTER BUDGETS** (chapter 1 : budgeting fundamentals)

Budget income statement

<table>
<thead>
<tr>
<th></th>
<th>MERCHANDISING</th>
<th>PROFESSIONAL SERVICES*</th>
<th>MANUFACTURING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Fees income</td>
<td></td>
<td>Sales</td>
</tr>
<tr>
<td>Purchases &gt;&gt; COGS</td>
<td>Professional and support labour costs e.g. dentist + dental assistant</td>
<td>Production + Ending Inventories</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>* direct materials (usage + purchases)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>* direct labour</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>* factory overhead</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>&gt;&gt; COGS</td>
</tr>
<tr>
<td>Marketing expenses</td>
<td>Marketing expenses</td>
<td></td>
<td>Marketing expenses</td>
</tr>
<tr>
<td>Admin. expenses</td>
<td>Admin. expenses</td>
<td></td>
<td>Admin. expenses</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>Financial expenses</td>
<td></td>
<td>Financial expenses</td>
</tr>
</tbody>
</table>

* sells expertise and knowledge

**Diagram:**
- Cash budget
- Capital expenditure budget
- Budgeted balance sheet
By the end of this lesson, you will be able to...

Prepare a detailed CASH BUDGET for a merchandising firm
Overview

1. Is a cash budget and a budgeted cash flow statement the same thing?
2. What does a cash budget provide us with an estimate of?
3. What does a cash budget look like?
4. How to approach a question in the exam which asks you to prepare a cash budget.
5. The GST and cash budgets
6. Cash budgets - OVERVIEW
7. Some examples
8. Maintaining a desired cash balance
1. Is a cash budget and a budgeted cash flow statement the same thing?

No.

What is the difference then?

A budgeted cash flow statement is the estimated cash flows for a future period presented in the specific format required by AASB107 (i.e. the accounting standard on Cash Flow Statements).

A cash budget shows the estimated cash receipts, cash payments and opening & closing cash balances for a specific period.
2. What does a cash budget provide us with an estimate of?

Our

- cash receipts (+)
- cash payments (-)
- opening cash balance
- closing cash balance

for a specific period.
3. What does a cash budget look like (FORMAT)?

Before moving on to the next slide, please refer to:

WEEK 4_FNSACC503A_Budgeting_LESSON 4_CASH BUDGETS_Format
4. How to prepare a cash budget

**STEP 1:** Jot down the **FORMAT** of your cash budget. It will help if you scan the question for clues on specific items that will appear in the budget.

**STEP 2:** Work out both the **AMOUNT & TIMING** of each cash receipt and payment (this step includes preparing a schedule of collections from AR / schedule of payments to AP if operating on credit).

**STEP 3:** **POPULATE** your budget with the information you worked out in ‘step 2’.
5. The GST and CASH BUDGETS

This unit assumes:

1. That all businesses are registered for GST
2. That they pay their liability monthly.

* IMPORTANT *

When doing the questions, don’t assume that everything is subject to GST. For example, wages are not subject to GST.
5. The GST and CASH BUDGETS

Before moving on to the next slide, please refer to:
WEEK 4_FNSACC503A_Budgeting_LESSON 4_CASH BUDGETS_GST Overview
Some GST basics…

**Taxable supply** = good or service subject to GST (i.e. not GST-free or input taxed)
- e.g. books, computers, hot take-away meals.

**GST-free supply** = good or service not subject to GST, but registered sellers can claim credits for GST paid on inputs
- e.g. exports, education, child care

**Input taxed supply** = good or service not subject to GST and the seller (whether registered or not) cannot claim credits for GST paid on inputs
- e.g. residential rents
5. The GST and CASH BUDGETS (adjustments)

When preparing the GST payable/refundable section of our cash budget, adjustments would have to be made for debts gone bad and for discounts allowed or received.

Before moving on to the next slide, please refer to which explains this concept:
WEEK 4_FNSACC503A_Budgeting.LESSON 4_CASH BUDGETS_GST Adjustments
6. Cash budgets - OVERVIEW

There are four (4) scenarios specific to cash budgeting:

1. The firm operates on a **cash basis**
2. The firm operates on a **credit basis**

1. The firm accounts for **GST** on a **cash basis**
   + GST adjustments

2. The firm accounts for **GST** on an **accrual basis**
   + GST adjustments
6. Cash budgets - OVERVIEW

Before moving on to the next slide, please refer to:
WEEK 4_FNSACC503A_Budgeting_LESSON
4_CASH BUDGETS_Overview

Then refer to:
WEEK 4_FNSACC503A_Budgeting_LESSON
4_CASH BUDGETS_Four (4) Scenarios
7. Examples

1. Preparing a ‘Schedule of Collection from Accounts Receivable’ (working out cash collection from debtors with discount allowed and bad debts) REFER TO NEXT SLIDE

2. Cash budget preparation – REFER TO WORKED EXAMPLE (with GST accounted for on a cash basis)

3. Cash budget preparation – REFER TO WORKED EXAMPLE (with GST accounted for on an accruals basis)
Working out cash collection from debtors with discount allowed and bad debts

Schedule of collections from debtors for the quarter ending 30 September

<table>
<thead>
<tr>
<th>Month of sale</th>
<th>TOTAL</th>
<th>CASH (30%)</th>
<th>CREDIT (70%)</th>
<th>July</th>
<th>August</th>
<th>Sept</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>May</td>
<td>57,000</td>
<td>17,100</td>
<td>39,900</td>
<td>7,980</td>
<td></td>
<td>7,980</td>
<td>7,980</td>
</tr>
<tr>
<td>June</td>
<td>63,000</td>
<td>18,900</td>
<td>44,100</td>
<td>22,050</td>
<td>8,820</td>
<td></td>
<td>30,870</td>
</tr>
<tr>
<td>July</td>
<td>72,000</td>
<td>21,600</td>
<td>50,400</td>
<td>11,340</td>
<td>25,200</td>
<td>10,080</td>
<td>46,620</td>
</tr>
<tr>
<td>August</td>
<td>51,000</td>
<td>15,300</td>
<td>35,700</td>
<td></td>
<td>8,033</td>
<td>17,850</td>
<td>25,883</td>
</tr>
<tr>
<td>September</td>
<td>36,000</td>
<td>10,800</td>
<td>25,200</td>
<td></td>
<td></td>
<td>5,670</td>
<td>5,670</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>41,370</td>
<td>42,053</td>
<td>33,600</td>
<td>117,023</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INFORMATION GIVEN:
* 30% of sales are for cash; the remainder are on credit.
* AR repayments as follows: M=25% (DIS.=10%); M+1 = 50%; M+2 = 20%
* Bad debts estimated at 5%.
Working out cash collection from debtors with discount allowed and bad debts

• In the table going ACROSS you have the period being budgeted for i.e. the BUDGETED PERIOD.
• In the table going DOWN you have the MONTH OF SALE.
• **Tip:** Work DOWN and then ACROSS. For example, work out cash collections for MAY during the months of JULY, AUGUST AND SEPTEMBER before working out cash collections for JUNE.
How to interpret the collection pattern e.g. for JULY credit sales

- In the month of sale (July), we will collect 25% of our July credit sales and we will give these customers a 10% discount for early payment.
- In the month after the month of sale (August), we will collect 50% of our July credit sales.
- Two months after the month of sale (Sept), we will collect 20% of our July credit sales.
- 5% of our July credit sales will be uncollectable.
e.g. Collections for JULY (workings)

JULY:
Total receivable: $50,400 x 25% = $12,600
Less DISCOUNT ALLOWED: $12,600 x 10% = $1,260
= $11,340

AUGUST:
Total receivable: $50,400 x 50% (NO DISCOUNT)
= $25,200

SEPTEMBER:
Total receivable: $50,400 x 20% (NO DISCOUNT)
= $10,080
Working out cash collection from debtors with discount allowed and bad debts

Before moving on to the next slide, please refer to:

WEEK 4_FNSACC503A_Budgeting.LESSON 4_CASH BUDGETS_Schedule of Collection from Debtors (THE COMPLETE PICTURE)
8. Ways to maintain a desired cash balance

- Management may aim to have a minimum cash balance.
- This may involve *borrowing* funds to attain the required balance.
- Borrowings are made in the month that a deficit is likely.
- There may be conditions attached to the amounts that can be borrowed (e.g. when repayments are due etc.).
This week’s homework

- Read chapter 6 → Cash Budgets
- Complete homework questions (chapter 6)
  (ref. STUDENT ONLINE STUDY GUIDE)
You are now ready to start the next lesson on:

Chapter 7

Financial Budgets