



SNS College of Technology

Coimbatore - 35

23BAT605 – FINANCIAL STATEMENT ANALYSIS

Unit V – BUDGETING

Topic: *Guess?????*



Presented by

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Design Thinker

1st Indian Institution to Implement Design Thinking Curriculum

Redesigning Common Mind and Business Towards Excellence



Cash Budgets



Cash Budgets



- Forecast the business's ability to pay its debts as and when they fall due.
- Enable predicted borrowing to be arranged ahead of time.
- Allows planning for investment of surplus funds.



Budgets required



The following sub budgets may need to be prepared first in order to complete the Cash Budget

- Accounts Receivable
(Debtors) Collections Budget.
- Cash Receipts Budget.
- Cash Payments Budget.



GST and Cash Budgets

GST must be incorporated into our budgets using either a cash or accruals basis.

Cash Basis

- GST liability arises when the **payment is received or made.**
- The 10% GST is calculated on the final amount of cash after any discounts.



GST and Cash Budgets

Accruals Basis

- **GST liability** arises in the first tax period that an **invoice is issued** or a **payment is received**.
- **Input tax credits** may be claimed in the earlier part of the tax period when the **invoice is issued**
- or
- when the **payment** for the taxable supply which has occurred **before** an invoice is **issued**.





Accounting for GST

Business Budgeting & Analysis
and Financial Management

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- GST received is posted to a GST collected account.
- GST paid (Input Tax Credits) are posted to a GST paid account.



Items not Subject to GST



These include:

- Wages & Salaries
- Taxation
- Financial Services



Non - Cash Items



These items are not cash expenses so are not included in Cash Budgets

- Depreciation
- Discount Allowed
- Discount Received
- Bad Debts
- Goodwill written off



Accounts Receivable Collections Budget



A schedule of estimated receipts from debtors for a period.

Example

Actual Sales:	November	\$12,000
	December	\$15,000
Expected Sales:	January	\$13,000
	February	\$10,000
	March	\$8,000

All sales are made on credit and the expected pattern of receipts is:

- 50% pay in the month of sale
- 50% pay in the following month

GST is accounted for on a cash basis.

Required: Prepare a budget of receipts from debtors for January, February and March, showing GST collected separately.



Accounts Receivable Collections Budget

A schedule of estimated receipts from debtors for a period.

Solution

	Nov	Dec	Jan	Feb	March
Credit Sales	12,000	15,000	13,000	10,000	8,000
<i>Collections:</i>					
1 month 50%			6,500	5,000	4,000
2 months 50%			7,500	6,500	5,000
			14,000	11,500	9,000
GST Collected			1,400	1,150	900
Total Collections			\$15,400	\$12,650	\$9,900



Accounts Receivable Collections Budget

A schedule of estimated receipts from debtors for a period.

Example: With Discount

Actual Sales:	November	\$12,000
	December	\$15,000
Expected Sales:	January	\$13,000
	February	\$10,000
	March	\$8,000

All sales are made on credit and the expected pattern of receipts is:

- 60% pay in the month following the month of sale and receive a discount of 4%
- 40% pay in the following month.

GST is accounted for on a cash basis.

Required: Prepare a budget of receipts from debtors for January, February and March, showing GST collected separately.



Accounts Receivable Collections Budget

Solution

	Nov	Dec	Jan	Feb	March
Total Sales	12,000	15,000	13,000	10,000	8,000
Collections:					
1 month 60% x 96%			8,640	7,488	5,760
2 months 40%			4,800	6,000	5,200
			13,440	13,488	10,960
GST Collected			1,344	1,349	1,096
Total Collections			\$14,784	\$14,837	\$12,056

Notes The cash received in the month following sale is expressed as "60% x 96%".

The calculation then is " $0.6 \times 0.96 = 0.58$ " not "60% minus 4% which equals 56%". Always multiply the proportion being received, in this case 96% by the proportion of people paying this amount, in this case 60%.



Cash receipts budget

A cash receipts budget is a forecast of all expected receipts of a business for a period

Example

The White Bay Paper Company sells paper products wholesale. The company is GST registered and accounts on a cash basis. Half of their sales are for cash, with customers earning a 5% cash discount. Account customers normally pay as follows:

- 50% pay in the month after sale and earn a discount of 2%
- 40% pay in the second month after sale
- 10% pay in the third month after sale

At the end of June, the balance in accounts receivable is \$37,000. Of this amount \$3,000 is from April sales, \$12,000 is from May sales and \$22,000 is from June sales.

Expected sales for the next three months are:

July	August	September
\$46,000	\$50,000	\$52,000

Required: Prepare a cash receipts budget for the period from July to September.





Cash receipts budget

Solution

Accounts receivable Balances:

Credit Sales	Balance	% Owing	July	August	Sept
30,000	3,000	10%	3,000		
24,000	12,000	50%	9,600	2,400	
22,000	22,000	100%	10,780	8,800	2,200

Cash Receipts Budget:

	April	May	June	July	August	Sept
Credit Sales	30,000	24,000	22,000	23,000	25,000	26,000
Collections:						
1 month	50% x 98%			10,780	11,270	12,250
2 month	40%			9,600	8,800	9,200
3 month	10%			3,000	2,400	2,200



Cash receipts budget

Solution

Collections from Accounts Receivable	23,380	22,470	23,650
Cash Sales (Total x 0.5 x 0.95)	21,850	23,750	24,700
	45,230	46,220	48,350
GST Collected (10%)	4,523	4,622	4,835
Total Receipts from Sales	\$49,753	\$50,842	\$53,185



Cash Payments budget

A cash payments budget is a forecast of all expected payments of a business for a period.

Example

Bondy Corp sales for the next four months are expected to be as follows:

January	February	March	April
\$49,875	\$50,750	\$52,500	\$49,000

All stock is sold at a mark-up of 75%. Inventory at the beginning of each month is required to be 25% of usage for the month.

All accounts payable are paid in the month following purchase, with 50% of purchases attracting a discount of 5%.

The balance in accounts payable at the end of December is \$28,000. Bondy Corp is GST registered and account on a cash basis.

Operating expenses are as follows:

Office Wages	\$4,000 per month
Sales Wages	\$1,600 per month
	plus 10% of sales



Cash Payments budget

A cash payments budget is a forecast of all expected payments of a business for a period.

Example

Insurance (paid in January)	\$2,500 per year
Telephone (payable in January)	\$580 (for 3 months)
Electricity (payable in January)	\$320 (for 3 months)
General Office Expenses	\$800 per month
	plus 5% of sales.

The net GST collected in the December quarter is payable in January of \$2,200.

In addition to the above expenses an income taxation bill of \$4,500 is payable in March.

Required: Prepare a cash payments budget for January, February and March, showing GST Paid separately.





Cash Payments budget

A cash payments budget is a forecast of all expected payments of a business for a period.

Solution

Bondy Corp Purchases Budget				
	January	February	March	April
Cost of Goods Sold (C.O.G.S.)	28,500	29,000	30,000	28,000
+ Closing Stock	7,250	7,500	7,000	
= Goods Available for Sale	35,750	36,500	37,000	
- Opening Stock	7,125	7,250	7,500	7,000
= Purchases	28,625	29,250	29,500	



Cash Payments budget

A cash payments budget is a forecast of all expected payments of a business for a period.

Solution

Bondy Corp Cash Payments Budget			
	January	February	March
	\$	\$	\$
Accounts payable	27,300	27,909	28,519
Insurance	2,500		
Telephone	580		
Electricity	320		
General Office Expenses	3,294	3,338	3,425
Total	33,994	31,247	31,944
GST	3,399	3,125	3,194
Office wages	4,000	4,000	4,000
Sales wages	6,588	6,675	6,850
Taxation			4,500
Net GST December Quarter	2,200		
Total Payments	\$50,181	\$45,047	\$50,488



Cash Budget Format

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Opening Cash Balance + Receipts = Cash Available - Payments = Closing Cash Balance

Or

Receipts - Payments = Surplus (Deficit) + Opening Balance = Closing Cash Balance



Cash Budget

Summary of expected receipts and payments

Example 1- GST collected on a cash basis

Simon's expects cash receipts and payments for the next three months are:

	Month 1	Month 2	Month 3
Receipts	\$15,280	\$14,700	\$14,300
Payments	\$ 8,650	\$10,500	\$14,800

Opening balance of cash is \$7,500. All receipts and payments are subject to the GST (cash basis).

Required: Prepare a Cash Budget for the next three months.



Solution

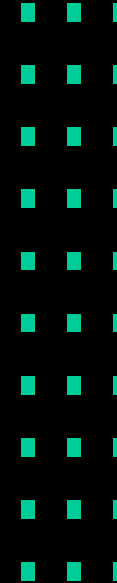
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Cash Budget	Month 1	Month 2	Month 3
	\$	\$	\$
Opening Cash Balance	7,500	14,793	19,413
Plus Receipts	16,808	16,170	15,730
Equals Cash Available	24,308	30,963	35,143
Less Payments	- 9,515	- 11,550	- 16,280
Equals Closing Cash Balance	\$14,793	\$19,413	\$18,863



Time for the assessment...





MCQ

- CASH BUDGET is classified into Cash Receipts and
-



Example

Cash Budget

Collecting GST on an accruals basis



Green Thumb sell plants wholesale. The company is GST registered and accounts for GST on a cash basis, submitting a quarterly BAS. 40% of their sales are for cash. Account customers normally pay as follows:

- 20% pay in the month of sale and earn a discount of 5%
- 15% pay in the month after sale and earn a discount of 2%
- 25% pay in the month after sale with no discount allowed
- 35% pay in the second month after sale with no discount allowed
- 5% are bad debts
- GST payable to the ATO for June Quarter \$15,290

Sales (GST exclusive) are:

Actual	April	\$55,000	May	\$62,000	June	\$50,000
Estimated	July	\$84,000	August	\$56,000	Sept	\$40,000

Required: Prepare the following for July to September:

- Accounts Receivable Schedule
- October Accounts Receivable Balance
- (i) GST liability - Cash & Credit Sales (ii) GST paid to the ATO
- Cash Budget (extract)



Solution - Accounts receivable schedule

	May	June	July	August	Sept
Credit Sales	\$37,200	\$30,000	\$50,400	\$33,600	\$24,000
Month of Sale -5% Disc 20%	7,068	5,700	9,576	6,384	4,560
Month after - 2% Disc 15%	4,851	5,468	4,410	7,409	4,939
Month after 25%	8,250	9,300	7,500	12,600	8,400
Second month 35%		11,550	13,020	10,500	17,640
	20,169	32,018	34,506	36,893	35,539
GST collected	2,017	3,202	3,451	3,689	3,554
Total receipts	\$22,186	\$35,220	\$37,957	\$40,582	\$39,093

October Accounts Receivable Balance

From August	\$14,784	(33,600 x 0.40) x 1.10
September	<u>21,120</u>	(24,000 x 0.80) x 1.10
	<u>\$35,904</u>	



Solution - GST liability - Cash & Credit Sales

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	July \$	August \$	September \$
Cash Sales	33,600	22,400	16,000
<i>GST</i>	3,360	2,240	1,600
Credit Sales	50,400	33,600	24,000
<i>GST</i>	5,040	3,360	2,400
Total Sales (GST Incl)	\$84,000	\$56,000	\$40,000
<i>GST</i>	8,400	5,600	4,000



Solution - GST owing to the ATO



	July	August	Sept	Sept Q
GST on Invoiced Sales	5,040	3,360	2,400	
GST on Cash Sales	3,360	2,240	1,600	
Total GST Due	8,400	5,600	4,000	
Less Input Tax Credit Bad Debts	165	186	150	
GST Adjustment (DA)	59	48	34	
Payment to ATO	\$8,176	\$5,366	\$3,816	\$17,358

Calculation of July input tax credit

Bad debts April sales = (\$55,000 × 60% × 5%) × 10% = **\$165**
(assume it takes 3 full months before we recognise a bad debt)



Solution – Cash Budget (extract)



	July	August	Sept
Cash Sales (including GST)	36,960	24,640	17,600
Credit Sales (including GST)	34,506	36,893	35,539
Total	71,466	61,533	53,139
Less GST to (ATO)	16,020		
Net Receipts	\$55,446	\$61,533	\$53,139

Note: The only difference between recognising GST under a cash and accrual basis is in the ATO amount payable/received.



Summary



- Cash Budget



References...

<https://businessjargons.com/budget.html>

<https://www.yourarticlelibrary.com/accounting/budget-accounting/budget-meaning-features-and-its-types-accounting/65284>

Accounting & Analysis
Management

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Thank
you