

**Source A for Question 1**

G Limited has made a single type of product for three years and continues to do so. The company is preparing its budgets for the **second** quarter of 2026.

The following forecast information is available.

## 1 Sales forecast:

	February	March	April	May	June	July
Sales (units)	2600	2500	3200	3100	3000	2800

- 2 The selling price per unit is \$80. It will increase by 5% in May. All sales are on credit, and customers are given two months' credit. However, 3% cash discount is allowed to those who pay within one month of sale. It is estimated that 25% of customers will settle their accounts within one month of sale.
- 3 Production of goods takes place one month before sale. Inventory of finished goods will be 5% of next month's sales.
- 4 Each unit of goods produced requires 3 kilos of direct material costing \$8 per kilo. Purchases of direct material are made in the month of production with a credit period of one month.
- G Limited keeps a base inventory of direct material. The base inventory at the end of February is expected to be 800 kilos but will reduce to 600 kilos from the end of May.
- 5 Direct wages and variable overheads of \$20 per unit are paid in the month of production.
- 6 Monthly fixed overheads of \$58 000 include depreciation amounting to \$6000. Fixed overheads are paid in the month they are incurred and will be expected to increase by 7% from May due to inflation.
- 7 Promotion cost of \$20 000 will be incurred in April.
- 8 The cash balance at 1 April is expected to be \$38 000.



1 Read Source A in the insert.

(a) State **two** benefits of preparing a:

(i) cash budget

1 .....

2 .....

[2]

(ii) production budget.

1 .....

2 .....

[2]

(b) Prepare the production budget (in units) for **each** of the months of April, May and June.

	April	May	June
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[4]



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Question	Answer	Marks																									
1(a)(i)	<p><b>State <u>two</u> benefits of preparing a:</b></p> <p><b>cash budget</b></p> <p>Ensuring that the payments are made to avoid a shortage of cash / liquidity problems. <b>(1)</b>                      Ensuring arrangements are made for the investment of surplus funds. <b>(1)</b></p> <p><b>Max 2</b></p> <p><b>Accept other valid responses.</b></p>	<b>2</b>																									
1(a)(ii)	<p><b>State <u>two</u> benefits of preparing a:</b></p> <p><b>production budget</b></p> <p>Ensuring right amount of inventory to meet the customers' demand. <b>(1)</b>                      Ensuring resources are available to meet the production target. <b>(1)</b></p> <p><b>Max 2</b></p> <p><b>Accept other valid responses.</b></p>	<b>2</b>																									
1(b)	<p><b>Prepare the production budget (in units) for <u>each</u> of the months of April, May and June.</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: center;">April</th> <th style="width: 15%; text-align: center;">May</th> <th style="width: 15%; text-align: center;">June</th> <th style="width: 20%;"></th> </tr> </thead> <tbody> <tr> <td>Sales of next month (units)</td> <td style="text-align: center;">3 100</td> <td style="text-align: center;">3 000</td> <td style="text-align: center;">2 800</td> <td><b>(1) row</b></td> </tr> <tr> <td>Opening inventory (units)</td> <td style="text-align: center;">(160)</td> <td style="text-align: center;">(155)</td> <td style="text-align: center;">(150)</td> <td><b>(1) row</b></td> </tr> <tr> <td>Closing inventory (units)</td> <td style="text-align: center;"><u>155</u></td> <td style="text-align: center;"><u>150</u></td> <td style="text-align: center;"><u>140</u></td> <td><b>(1) row</b></td> </tr> <tr> <td>Production (units)</td> <td style="text-align: center;"><u>3 095</u></td> <td style="text-align: center;"><u>2 995</u></td> <td style="text-align: center;"><u>2 790</u></td> <td><b>(1) OF row</b></td> </tr> </tbody> </table>		April	May	June		Sales of next month (units)	3 100	3 000	2 800	<b>(1) row</b>	Opening inventory (units)	(160)	(155)	(150)	<b>(1) row</b>	Closing inventory (units)	<u>155</u>	<u>150</u>	<u>140</u>	<b>(1) row</b>	Production (units)	<u>3 095</u>	<u>2 995</u>	<u>2 790</u>	<b>(1) OF row</b>	<b>4</b>
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1(d)	<b>Prepare the cash budget for <u>each</u> of the months of April, May and June.</b>			<b>6</b>
	April \$	May \$	June \$	
	Receipts			
	February sales	156 000		
	March sales	48 500	150 000	
	April sales	62 080	192 000	
	May sales	<u>        </u>	<u>63 147</u>	
	<u>204 500</u> (1)	<u>212 080</u>	(1) <u>255 147</u> (1)	
	Payments			
	Suppliers	77 640	74 280	70 280 <b>OF</b>
	Direct wages and variable overheads	61 900	59 900	55 800 <b>(1)OF row</b>
	Fixed overheads	52 000	55640	55640 <b>(1) row</b>
	Promotion cost	<u>20 000</u>	<u>        </u>	
	<u>211 540</u>	<u>189 820</u>	<u>181 720</u>	
	Net cash increase/(decrease)	(7 040)	22 260	73 427
	Opening balance	<u>38 000</u>	<u>30 960</u>	<u>53 220</u>
	Closing balance	<u>30 960</u>	<u>53 220</u>	<u>126 647</u> <b>(1)OF row</b>

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Question	Answer	Marks
1(e)	<p><b>Advise the directors which option they should choose. Justify your answer.</b></p> <p><b>Option 1 (Max 3)</b>  Existing product may be coming to the end of its product life cycle. (1)  Developing a new product is important for the future of the business. (1)  Further costs may be incurred on development / promotion of new product. (1)  Research and development may fail / it is risky. (1)</p> <p><b>Option 2 (Max 3)</b>  It has less risk (1)  Interest income increases the profit or cash / return from the interest income is too low (1)  Cash can be used for other investments to generate a higher return (1)  Cash is not available for long-term investment / emergency use in the business (1)</p> <p><b>Decision supported with a comment (1)</b></p> <p><b>Accept other valid responses.</b></p>	7