

GRADE 11 STUDY GUIDE | 2024

Cash Budgets and Internal Controls

Accounting

1. Cash Budget

A cash budget shows EXPECTED cash inflows and outflows for a future period. It helps management plan for cash shortages and surpluses.

- Cash receipts: cash sales, collections from debtors, loans received, asset sales
- Cash payments: cash purchases, payments to creditors, salaries, rent, loan repayments, tax
- Net cash flow = Total receipts - Total payments
- Closing balance = Opening balance + Net cash flow
- A negative closing balance means the business needs to arrange additional finance

KEY: Cash budget vs Income Statement: cash budget deals with WHEN CASH MOVES; income statement records income when EARNED and expenses when INCURRED, regardless of cash movement.

2. Projected Income Statement vs Cash Budget

- Depreciation appears in Income Statement but NOT in Cash Budget (not a cash transaction)
- Loan REPAYMENT appears in Cash Budget but only the INTEREST appears in Income Statement
- Credit sales: appear in Income Statement when sale is made; appear in Cash Budget when cash is collected

3. Internal Controls for Cash

- Bank reconciliation: monthly comparison of cash book (company records) with bank statement
- Petty cash: small amount of cash for minor expenses; reconciled regularly
- Authorisation: all payments approved by designated person; two signatures for large amounts
- Segregation of duties: person who authorises payment must NOT be the person who physically makes the payment
- Regular audits: internal and external auditing of financial records
- Pre-numbered documents: invoices, receipts, cheques all numbered to prevent omission or duplication
- Banking promptly: all cash received banked daily to reduce risk of theft

4. Ethics in Accounting

- GAAP: Generally Accepted Accounting Principles -- consistency, prudence, historical cost, going concern, matching, full disclosure
- Ethical violations: fraudulent financial reporting, embezzlement, window dressing
- King IV: South African corporate governance framework emphasising accountability and ethical leadership

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SAICA Code of Ethics: objectivity, integrity, confidentiality, professional competence