

4 Zimba Timber Limited is to start business on 1 January 2019 buying timber from suppliers, which is then sold to customers.

The following budgeted information is available concerning purchases for the store:

- In the period January to April 2019 purchases are expected to be 2 600 units per month
- The average cost of purchase will be £14 per unit
- The breakdown of purchases will be:
  - 45% for cash
  - 35% on one month's credit
  - 15% on two months credit
  - 5% on three months credit.

You are the accountant for Zimba Timber Limited, and have to prepare the budgets in columnar format.

**Required**

(a) Prepare, for **each** of the **four** months from January to April 2019, the:

- (i) purchases budget, in pounds (£) (2)
- (ii) cash budget extract, showing the amount paid to suppliers (8)
- (iii) trade payables budget showing the amount owed to suppliers at the end of each month. (10)

Suppliers have stated that they will offer a 2% discount if Zimba Timber Limited pay for its **credit purchases** within the same month as the purchase.

- (b) Calculate, for the four months January to April 2019, the total amount of discount Zimba Timber Limited would receive if it accepted the offer of a 2% discount for payment within the same month as the credit purchase. (4)
- (c) Evaluate, from the viewpoint of Zimba Timber Limited, whether it should pay suppliers within the same month as purchase. (6)

**(Total for Question 4 = 30 marks)**