

9. Cash Budgeting

Aisling Ltd. is preparing to set up business on 1/7/2007 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	425,000	440,000	580,000	590,000	600,000	652,000	3,287,000
Purchases	200,000	215,000	252,000	260,000	350,000	356,000	1,633,000

- (i) The expected selling price is €50 per unit.
- (ii) The cash collection pattern from Sales is expected to be:

Cash Customers - 30% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers - 70% of sales revenue will be from credit customers. These debtors will pay their bills 50% in month after sale and the remainder in the second month after sale.

- (iii) The cash payments pattern for purchases is expected to be:

Credit Suppliers - The purchases will be paid for 50% in month after purchase when 2% cash discount will be received.

The remaining purchases will be paid for in the second month after purchase.

- (iv) Expenses of the business will be settled as follows:

Expected Costs Wages €35,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €42,000 per month payable as incurred.

Capital Costs Equipment will be purchased in July costing €45,000 which will have a useful life of 5 years. To finance this purchase a loan of €40,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until January 2007.

You are required to:

- (a) Prepare a cash budget for the six months July to December 2007.
- (b) Prepare a budgeted Profit and loss account for the six months ended 31/12/2007.
- (c) Define 'cash budget' and describe two of its advantages.

(80 marks)