

9. Cash Budgeting

Greene Ltd is preparing to set up business on 1/1/2010 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2010.

Sales Budget

	January	February	March	April	May	June
Sales units	8,000	8,500	10,000	11,000	11,500	10,500
Sales revenue	€240,000	€255,000	€300,000	€330,000	€345,000	€315,000

(i) The cash collection pattern from sales is expected to be:

Cash Customers 30% of sales revenue will be for immediate cash.

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

(ii) The product requires 4 kg of material X, which costs €1.50 per kg.

(iii) Stocks of finished goods are maintained at 60% of the following month's sales requirement.

(iv) Stocks of raw materials, sufficient for 10% of the following month's requirements in kgs, are held at the end of each month.

(v) One month's credit is received from suppliers.

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

Expected Costs Wages €20,000 per month, payable as incurred.
Variable overheads €5 per unit, payable as incurred.
Fixed overheads (including depreciation) €29,000 per month, payable as incurred.

Capital Costs Equipment will be purchased in January costing €30,000 which will have a useful life of 5 years. To finance this purchase a loan of €24,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2010.

You are required to:

(a) Prepare a Production Budget for the four months January to April, 2010.

(b) Prepare a Materials Purchase Budget (in units and €) for the four months January to April, 2010.

(c) Prepare a Cash Budget for the 4 months January to April, 2010.

(d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2010 (if the budgeted cost of a unit of finished goods is €20).

(e) Prepare a note on the factors taken into account by Greene Ltd in arriving at the expected sales of 59,000 units for the six months of 2010.

(80 marks)