9. <u>Cash Budgeting</u>

Woods Ltd is preparing to set up business on 01/07/2011 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	410,000	430,000	560,000	580,000	610,000	630,000	3,220,000
Purchases	190,000	210,000	240,000	250,000	330,000	350,000	1,570,000

(i) The expected selling price is €40 per unit.

(ii) The cash collection pattern from Debtors is expected to be:

Cash Customers: 40% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers: 60% 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 the month after purchase when a 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 €40,000 per month payable as incurred
Variable overheads €10 per unit payable as incurred
Fixed overheads (including depreciation) €45,000 per month payable as incurred.

Capital Costs: Equipment will be purchased in July costing €48,000 which will have a useful life of 5 years. To finance this purchase a loan of €44,000 will be secured at 9% per annum. Interest to be paid monthly, but capital loan repayments will not commence until January 2012.

You are required to:

(a) Prepare a cash budget for six months July to December 2011.
(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2011.
(c) What is an adverse variance? State why adverse variances may arise in direct material costs.

(80 marks)