

9. Cash Budgeting

Din Ltd, a successful retailer is planning to open a new store in a new shopping centre in Cork on 01/07/2012 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	520,000	540,000	610,000	630,000	640,000	660,000	3,600,000
Purchases	220,000	240,000	270,000	280,000	360,000	380,000	1,750,000

- (i) The expected selling price is €50 per unit.
- (ii) The cash collection pattern from sales/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 €50,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €60,000 per month payable as incurred.

Capital Cost Equipment costing €54,000 with an estimated useful life of 5 years and no residual value will be purchased on 1 July. This will be partly financed by means of a loan of €48,000 at 6% per annum. The capital sum is to be repaid in 24 equal instalments commencing on 1 August. The interest for each month is to be paid on the last day of the each month based on the amount of the loan outstanding at that date.

Required:

- (a) Prepare a cash budget for six months July to December 2012.
- (b) Prepare a budgeted profit and loss account for the six months ended 31/12/2012.
- (c) What factors should be taken into account by Din Ltd in arriving at the expected sales of €3,600,000 for the six months of 2012?

(80 marks)