

## 9. Cash Budgeting

Watchurn Ltd is preparing to set up business on 1/1/2012. Below is the sales budget for the company for the first 6 months of 2012.

### Sales Budget

	January	February	March	April	May	June
Sales units	6,200	6,800	7,400	7,800	9,000	10,200
Sales revenue €	€372,000	€408,000	€444,000	€468,000	€540,000	€612,000

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

**Cash Customers:** 20% of sales revenue will be for immediate cash.

**Credit Customers:** 80% 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.

- (ii) The product requires 6 kg of material A, which costs €2.00 per kg.
- (iii) Stocks of finished goods are maintained at 40% of the following month's sales requirements.
- (iv) Stocks of raw materials, sufficient for 20% 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 €30,000 per month, payable as incurred  
Variable overheads €12 per unit, payable as incurred  
Fixed overheads (including depreciation) €36,000 per month, payable as incurred.

**Capital Costs:** Equipment will be purchased in January costing €72,000 which will have a useful life of 6 years. To finance this purchase a loan of €60,000 will be secured at 12% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2012.

### You are required to:

- (a) Prepare a Production Budget for the four months January to April, 2012.
- (b) Prepare a Materials Purchase Budget (in units and €) for the four months January to April, 2012.
- (c) Prepare a Cash Budget for the four months January to April, 2012.
- (d) Prepare a budgeted Trading and Profit and Loss Account for the four months ending 30/4/2012 (if the budgeted cost of a unit of finished goods is €40).
- (e) Define 'cash budget' and describe **two** of its advantages.

**(80 marks)**