

9. Cash Budgeting

Retro Ltd is preparing to set up business on 01/07/2016 and has made the following forecast for the first six months of trading:

| | July | Aug. | Sept. | Oct. | Nov. | Dec. | Total |
|-----------|---------|---------|---------|---------|---------|---------|-----------|
| Sales | 420,000 | 440,000 | 580,000 | 590,000 | 620,000 | 625,000 | 3,275,000 |
| Purchases | 180,000 | 220,000 | 260,000 | 265,000 | 340,000 | 370,000 | 1,635,000 |

(i) The expected selling price is €50 per unit.

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

Cash Customers 20% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers 80% 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.

(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 €60,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) €65,000 per month payable as incurred.

Capital Costs Equipment will be purchased on 1 July costing €42,000 which will have a useful life of 5 years. To finance this purchase a loan of €36,000 will be secured at 6% per annum. The capital sum is to be repaid in 36 monthly instalments commencing on 1 August. The interest for each month is to be paid on the last day of that month based on the amount of the loan outstanding at that date.

Required:

(a) Prepare a cash budget for six months July to December 2016.

(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2016.

(c) (i) What options does a business have when it has (a) a cash surplus and (b) a cash deficit?

(ii) On the basis of the cash budget you have prepared what advice would you give the management of Retro Ltd?

(80 marks)