

Question 9

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(a)

Cash Budget July to December

Receipts	July	August	September	October	November	December	Total
Cash sales receipts	79,800 [1]	83,600 [1]	110,200 [1]	112,100 [1]	117,800 [1]	118,750 [1]	622,250
Credit Sales 1 month		168,000 [1]	176,000 [1]	232,000 [1]	236,000 [1]	248,000 [1]	1,060,000
Credit sales 2 months			168,000 [1]	176,000 [1]	232,000 [1]	236,000 [1]	812,000
	<u>79,800</u>	<u>251,600</u>	<u>454,200</u>	<u>520,100</u>	<u>585,800</u>	<u>602,750</u>	<u>2,494,250</u>
Payments							
Purchases 1 month		88,200 [1]	107,800 [1]	127,400 [1]	129,850 [1]	166,600 [1]	619,850
Purchases 2 months			90,000 [1]	110,000 [1]	130,000 [1]	132,500 [1]	462,500
Wages	60,000 [2]	60,000	60,000	60,000	60,000	60,000	360,000
Variable overheads	84,000 [1]	88,000 [1]	116,000 [1]	118,000 [1]	124,000 [1]	125,000 [1]	655,000
Fixed overheads	64,300 [6]	64,300	64,300	64,300	64,300	64,300	385,800
Equipment	42,000 [1]						42,000
Loan repayment		1,000 [1]	1,000	1,000	1,000	1,000	5,000
Interest	180 [1]	175 [1]	170 [1]	165 [1]	160 [1]	155 [1]	1,005
	<u>250,480</u>	<u>301,675</u>	<u>439,270</u>	<u>480,865</u>	<u>509,310</u>	<u>549,555</u>	<u>2,531,155</u>
Net Cash	(170,680) [1]	(50,075) [1]	14,930 [1]	39,235 [1]	76,490 [1]	53,195 [1]	(36,905)
Bank Loan	36,000 [1]						36,000
Opening balance		(134,680) [1]	(184,755)	(169,825)	(130,590)	(54,100)	
Closing balance	<u>(134,680)</u>	<u>(184,755)</u>	<u>(169,825)</u>	<u>(130,590)</u>	<u>(54,100)</u>	<u>(905) [4]</u>	<u>(905)</u>

(b)

Budgeted Profit and Loss Account

	€	€
Sales		3,275,000 [1]
Less Cost of Sales		
Material	1,635,000 [1]	
Labour	360,000 [1]	
Variable overhead	655,000 [1]	
Fixed overhead	[6 × 64,300]	385,800 [1]
Gross Profit		(3,035,800)
Depreciation – equipment	4,200 [1]	239,200
Discount allowed	[3,275,000 × 20% × 5%]	32,750 [2]
		(36,950)
		202,250
Add Discount received	[1,635,000 - 370,000 ÷ 2 × 2%]	12,650 [2]
		214,900
Less interest		(1,005) [2]
Net Profit		213,895 [2]

(c)

(i) [4]

Cash Surplus: This money can be placed in short term investment opportunities in order to gain the most interest. When the company predicts that it will have a cash surplus this allows it to arrange for short-term investment of surplus funds to gain maximum interest. The surplus could be used to pay off any loans or purchase fixed assets

Cash Deficit: The business needs to arrange alternative sources of finance e.g. a bank overdraft to get them over the period of the deficit. When the company predicts that it will experience cash deficits this enables management to arrange for alternative sources of finance, e.g. longer periods of credit or bank overdraft accommodation to cover such deficits.

(ii) [4]

Advice

There are serious cash shortages in both July and August.

Retro Ltd should change the credit terms for debtors to encourage more prompt payment for example 6% discount for cash payment in month of sale

Hire equipment instead of buying it to reduce cash expenditure or delay the start date for repayment of loan/repay loan over longer period of time

Agree better credit terms with creditors

Examine variable overheads to see if they can be reduced.

Examine wage bill to see if it can be reduced