

9. Cash Budgeting

Dale Ltd is preparing to set up business on 01/07/2015 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	530,000	550,000	590,000	620,000	650,000	680,000	3,620,000
Purchases	240,000	250,000	280,000	310,000	350,000	390,000	1,820,000

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

(ii) The cash collection pattern from sales/debtors is expected to be:

Cash Customers 30% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers 70% of sales revenue will be from credit customers. These debtors will pay their bills 60% 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 3% 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 €45,000 per month payable as incurred.
Variable overheads €12 per unit payable as incurred.
Fixed overheads (including depreciation) €50,000 per month payable as incurred.

Capital Costs Equipment costing €60,000 with an estimated useful life of 4 years and no residual value, will be purchased on 1 August. This will be partly financed by means of a loan of €54,000 at 8% per annum. The capital sum is to be repaid in 36 equal monthly instalments commencing on 1 September. The interest for each month is to be paid on the last day of each month based on the amount of the loan outstanding at that date.

You are required to:

(a) Prepare a Cash Budget for the six months July to December 2015.

(b) Prepare a Budgeted Profit and Loss Account for the six months ended 31/12/2015.

(c) Explain **three** reasons for preparing a flexible budget.

(80 marks)