

9. Cash Budgeting

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

Sales Budget

	July	August	September	October	November	December
Sales units	9,000	9,750	11,000	12,000	12,500	12,800
Sales revenue	€270,000	€292,500	€330,000	€360,000	€375,000	€384,000

- (i) Each product unit requires 3kg of material X, which costs €4 per kg.
- (ii) Stocks of finished goods are maintained at 60% of the following month's sales requirement.
- (iii) Stocks of raw materials, sufficient for 20% of the following month's requirements in kgs are held at the end of each month.
- (iv) The cash collection pattern from sales is expected to be:
 - Cash Customers** 30% of sales revenue will be for immediate cash.
 - Credit Customers** 70% 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.
- (v) One month's credit is received from suppliers.
- (vi) Expenses of the business will be settled as follows:

Expected Costs Wages €10,000 plus 5% of sales revenue per month, payable as incurred.
 Variable overheads €4 per unit, payable as incurred.
 Fixed overheads (including depreciation) €28,000 per month, payable as incurred.

Capital Costs Equipment will be purchased on 1 July costing €60,000 which will have a useful life of 5 years.

To finance this purchase a loan of €48,000 will be secured at 10% per annum. This loan and interest will be repaid over 4 years. Monthly capital and interest payments will commence in August.

Required:

- (a) Prepare a production budget for the four months July to October 2016.
- (b) Prepare a raw materials purchases budget (in units and €) for the four months July to October 2016.
- (c) Prepare a cash budget for the four months July to October 2016.
- (d) Prepare a budgeted trading and profit and loss account for the four months ending 31/10/2016 (if the budgeted cost of a unit of finished goods is €20).
- (e)
 - (i) What recommendations would you make to Irwin Ltd based on the budgets you have prepared?
 - (ii) Outline the factors which Irwin Ltd should take into account when estimating future sales figures.

(80 marks)