9. Cash Budgeting

Nash Ltd is preparing to set up business on 01/03/2018 to manufacture a single product. Below is the sales budget for the company for the first six months of trading.

	Mar.	Apr.	May	June	July	Aug.	Total
Sales (€)	430,000	440,000	570,000	590,000	625,000	630,000	3,285,000
Purchases (€)	180,000	210,000	250,000	260,000	330,000	370,000	1,600,000

(i) The expected selling price is €100 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.

(vi) Expenses of the business will be settled as follows:

Expected Costs: Wages €50,000 per month, payable as incurred.
Variable overheads €10 per unit, payable as incurred.
Fixed overheads (including depreciation) €70,000 per month, payable as incurred.

Capital Costs: Equipment will be purchased in March costing €48,000 which will have a useful life of 5 years. To finance this purchase a loan of €40,000 will be secured at 6% per annum. The capital sum will be repaid in 20 monthly instalments commencing on 1 April. 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.

You are required to:

(a) Prepare a Cash Budget for the six months March to August, 2018.

(b) Prepare a budgeted Profit and Loss Account for the six months ending 30/08/2018.

(c) (i) Explain what is meant by 'Master Budget'. List the components of a Master Budget for a manufacturing firm.

(ii) What is an adverse variance? State why adverse variances may arise in Direct Labour costs.

(80 marks)